

January 30, 2024

Synapse Solutions Private Limited: [ICRA]BBB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]BBB- (Stable); assigned
Total	-	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating factors in Synapse Solutions Private Limited's (Synapse) established track record in the financial inclusion space, the long experience of its promoters, asset-light business model, strong liquidity position and comfortable financial profile. The company is debt-free while maintaining healthy operating profit margins and capitalisation and coverage metrics. Synapse had free cash and bank balances (including fixed deposits with maturity exceeding 12 months) of Rs. 36.2 crore as on March 31, 2023. Synapse has been in the financial inclusion business since 2010 and is currently empanelled as a corporate business correspondent (CBC) with nine banks. Banks enter into contracts with CBCs, which further engage with several business correspondents (BCs). These BCs act as agents on a commission basis and provide banking services in rural locations through kiosk-like structures. The investment and maintenance of these kiosks, as well as cash for transactions, are undertaken by BCs, leading to an asset-light business model for Synapse. Further, the commission payable to BCs is only disbursed after payment is received from the respective banks, leading to low working capital requirements and nil debt.

The rating also considers the company's high customer concentration with dependence on the top three customers for around 90% of its revenues. Further, Synapse's earnings are dependent on the performance of BCs and are exposed to the risk of non-renewal of contracts and/ or downward revision of commercials with the banks. Accordingly, Synapse emphasises recruiting suitable candidates and has a performance monitoring mechanism. However, the transaction size and number also depend on macroeconomic factors. Banks generally float tenders for the allocation of BC points and these contracts are for three years with an optionable extension of two years. While banks generally renew their contracts with existing vendors, Synapse witnessed a reduction in the BC points allocation during the new tender floated by the Central Bank of India in September 2021, which resulted in a significant ~22% YoY decline in its revenues for FY2022. CBCs also have limited pricing flexibility as the terms of the contracts are fixed as per the bank's policies. The company has witnessed a downward revision in commercials with some of its customers over the last three to four years. Any further reduction in BC point allocations, non-renewal of contracts or a further downward revision of commissions will be key monitoring factors. Further, the financial inclusion industry is highly dependent on regulatory policies and therefore, adverse policy changes could impact Synapse's business.

Synapse has created a subsidiary, Mitansh Leasing and Finance Private Limited, and has applied for a non-banking financial company (NBFC) licence through the same. It plans to venture into microlending in the medium term, which would have higher capital requirements and would thus remain a key monitorable going forward.

The Stable outlook on Synapse's rating reflects ICRA's opinion that the company will continue to benefit from its established track record in the financial inclusion space and its strong liquidity profile.

Key rating drivers and their description

Credit strengths

Established track record of the company – The company has been engaged in the financial inclusion industry since 2010. Further, Synapse's promoters are involved in its day-to-day operations. They have significant experience in the financial inclusion space and are working with both public and private sector entities.

Comfortable financial profile and liquidity position – Synapse's financial risk profile is characterised by moderately healthy, albeit decreasing, operating margins (10.9% in 9M FY2024 (provisional)), robust capitalisation and coverage metrics on the back of nil debt and strong free cash and liquid investment balances of Rs. 39.8 crore as on December 31, 2023.

Asset-light business model – The banking services are provided by BCs at a kiosk-like structure, equipped with a laptop/hand-held device, POS machine, biometric scanner, receipt printer and others. The investments at this stage are undertaken by the BCs. Further, the cash maintained by BCs facilitates transactional services offered to customers of the banks. Synapse maintains an asset-light business model, as it is not required to invest in BC points.

Credit challenges

Risk associated with non-renewal of contracts/downward revision of commercials – While ICRA understands that the contracts are generally renewed on expiry, the risk of non-renewal could adversely impact the company's revenues. While changing the CBC would also lead to business disruption for the bank, ICRA notes that the number of BC points pertaining to some customers witnessed a decline in the past, which, in turn, impacted Synapse's revenues. Further, in line with other players in the industry, Synapse has a limited pricing flexibility, as commercials are generally fixed as per the bank's policies. There have been instances in the past when the banks reduced the commissions, leading to a decline in revenues and profit margins for the company. The company's scale is also on the lower side for the rating category.

High customer concentration – Synapse remains exposed to a high client concentration risk as ~90% of its revenue is derived from its top three customers. However, Synapse's decade-long association with its top customer mitigates the risk to a certain extent. Further, the company intends to expand its customer base in the near term.

Regulatory risk – The financial inclusion industry is highly dependent on the regulatory policies framed by the Reserve Bank of India (RBI) and the Government of India (GoI). Hence, any adverse policy change by the RBI/GoI pertaining to CBCs could impact the company's business.

Revenues dependent on performance of BCs – The company's revenues are dependent on the performance of the BCs, who are independent agents working with Synapse through a commission structure. Accordingly, the company emphasises recruiting suitable candidates and has a performance monitoring mechanism. However, the transaction size and number also depend on macroeconomic factors and BC commissions fixed by the banks.

Liquidity position: Strong

Synapse's liquidity is Strong with free cash and bank balance of Rs. 39.8 crore as on December 31, 2023. It does not have any long-term debt or sanctioned working capital limits. Further, the company has no major capex plan in the near term. It intends to obtain the NBFC licence and venture into microlending, which would have higher capital requirements and would thus be a key monitorable.

Rating sensitivities

Positive factors – A significant improvement in the company's scale along with the diversification of its customer base while maintaining the credit metrics and liquidity would be a positive trigger.

Negative factors – Pressure on the company’s rating could arise from the loss of a key customer or any unfavourable regulatory measure, leading to the weakening of its operational profile and liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of Synapse.

About the company

Synapse Solutions Private Limited has been involved in the financial inclusion business since 2010, when the concept of financial inclusion was introduced by the Department of Financial Services, Government of India. Earlier, the company catered to the technology and manpower requirements of other companies empanelled with banks as CBCs. Since 2013, Synapse has been empanelled independently with banks and has been working as a CBC. At present, it is on the panel of nine banks, including public sector banks, regional rural banks and private sector banks. Due to the low penetration of bank branches in rural areas, banks generally engage with CBCs, who oversee multiple BCs to offer banking services at locations other than a bank branch/ATM.

Key financial indicators (audited)

SSPL	FY2022	FY2023
Operating income	63.4	65.5
PAT	7.2	7.5
OPBDIT/OI	13.4%	12.8%
PAT/OI	11.4%	11.5%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	217.2	127.6

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				January 30, 2024	May 09, 2022	May 19, 2021	-
1 Issuer Rating	Long term	-	-	[ICRA]BBB-(Stable)	[ICRA]BBB (Stable); Withdrawn	[ICRA]BBB (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	-	[ICRA]BBB- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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Branches



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