September 02, 2024

Sub-k Impact Solutions Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based cash credit facility	14.00	14.00	[ICRA]BB (Stable); reaffirmed
Total	**14.00**	**14.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action takes into consideration Sub-k Impact Solutions Limited's (SKISL) established track record of operations in the microfinance industry. Moreover, it has a diverse product profile, comprising the credit and non-credit businesses, supporting its revenue and earnings. SKISL witnessed healthy growth in its portfolio due to the increase in disbursements in the credit business to Rs. 996 crore in FY2024 from Rs. 407 crore in FY2023; its assets under management (AUM) reached Rs. 1,023 crore as of March 2024 (Rs. 493 crore as of March 2023). The AUM was facing a declining trend during FY2022-FY2023 due to factors such as the Covid-19 pandemic, discontinuation of the micro, small and medium enterprise (MSME) segment, etc.

SKISL's business is a combination of risk-bearing arrangements with first loss default guarantees (FLDGs) to cover credit losses and non-risk bearing arrangements with a predefined incentive/disincentive structure based on the pool's asset quality. As of March 2024, 35.5% of the AUM was under risk-bearing arrangements while the balance (64.5%) was under non-risk bearing arrangements. ICRA also takes note of the improvement in the company's asset quality indicators with 0+ and 90+ days past due (dpd) of 2.4% and 0.9%, respectively, as of March 2024 compared to 3.4% and 2.4%, respectively, as of March 2023 and 28.9% and 17.3%, respectively, as of March 2022, driven by healthy recoveries.

SKISL reported a net loss of Rs. 7.3 crore in FY2024 (net loss of Rs. 26.8 crore in FY2023), translating into a return on average managed assets (RoMA) of -0.8% and a return on average net worth (RoNW) of -7.3% compared to -3.6% and -23.1%, respectively, in FY2023. The losses were largely due to high cost-to-income ratio (108% in FY2024) on account of addition of new branches during April 2023 to March 2024, which are expected to take 12-18 months to break even, thereby impacting the profitability. The AUM per branch was moderate at Rs. 3.2 crore as of March 2024 (Rs. 2.0 crore as of March 2023) despite the significant scale-up in FY2024. Consequently, the net worth declined to Rs. 96.1 crore as of March 2024 from Rs. 102.8 crore as of March 2023. Going forward, SKISL's ability to improve its operating efficiency while controlling the credit costs will be important for enhancing its earnings profile.

SKISL's portfolio is concentrated in a few states. The top 3 states accounted for 57% of the total AUM as of March 2024, though the same declined from 64% as of March 2023. Uttar Pradesh, which remains the largest contributor, accounted for 26% as of March 2024 (33% as of March 2023) while Maharashtra accounted for 20% (21% as of March 2023). Nevertheless, the company has diversified its geographical presence to a certain extent, with the addition of three new states in FY2024.The rating is also constrained by SKISL's focus on unsecured lending, the marginal borrower profile, and the political and operational risks associated with microlending.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that the company will continue to maintain healthy AUM growth in the near term, supported by its adequate capitalisation profile and asset quality performance.

Key rating drivers and their description

Credit strengths

Established track record in microfinance sector – Incorporated in 2010, SKISL has an established track record in the financing business. Its objective is to provide easy access to credit in rural areas along with financial inclusion with the help of its agent network. Hence, the company was able to increase its business correspondent (BC) partner base to 10 partners as of March 2024. The promoters and senior management are adequately experienced in the microlending and banking, financial services, and insurance (BFSI) domain.

Diverse product mix – SKISL has a diverse portfolio mix under its managed book. It manages two types of portfolios – credit and non-credit. In the credit portfolio, the company originates loans under the joint liability group (JLG) model for its BC partners and has two revenue models for the same. One is the FLDG-backed model (risk-bearing), which accounted for 35.5% of the managed portfolio as of March 2024. The other (64.5% of total portfolio in FY2024) is the non-risk bearing model, which has a base commission rate along with an incentive/disincentive structure basis the collection efficiency of the pool disbursed. The company is responsible for originations and collections under this model. SKISL offers basic banking services in the non-credit segment, such as account opening, deposits, withdrawals, money transfer and balance enquiry, with the help of its agent network and earns a fixed commission for the same.

Credit challenges

Moderate scale and weak profitability – SKISL's gross AUM increased by 107.5% to Rs. 1,023 crore as of March 2024 from Rs. 493 crore as of March 2023, driven by disbursements in the non-risk bearing business. The company expects the AUM to reach Rs. 1,400 crore and Rs. 2,000 crore as of March 2025 and March 2026, respectively. The profitability indicators remain subdued with SKISL reporting a net loss of Rs. 7.3 crore in FY2024 (net loss of Rs. 26.8 crore in FY2023), translating into RoMA of -0.8% and RoNW of -7.3% compared to -3.6% and -23.1%, respectively, in FY2023. The losses were largely due to high cost-to-income ratio on account of addition of new branches during April 2023 to March 2024, which are expected to take 12-18 months to break even, thereby impacting the profitability. SKISL's AUM per branch was also moderate at Rs. 3.2 crore as of March 2024 (Rs. 2.0 crore as of March 2023), leading to higher operating expenditure. Going forward, the company's ability to improve its operating efficiency while controlling the credit costs will be important for enhancing its earnings profile.

High geographical concentration – SKISL's operations remain geographically concentrated with the share of its portfolio in the top 3 states remaining high at 57% as of March 2024, although down from 64% as of March 2023. Nevertheless, ICRA notes that the company is present in 15 states with the intention of reducing geographical concentration going forward. SKISL's ability to diversify its operations geographically will remain important from a credit perspective.

Political and communal risks and marginal borrower profile – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operation. Further, political, and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio political, climatic, and operational risks, which could negatively impact its operations. SKISL is exposed to asset quality risks for the loans it originates, especially those with FLDGs or incentive/disincentive arrangements. As such, its ability to onboard borrowers with a good credit history, recruit and retain employees as well as improve the geographical diversity of its operations is key for sustaining the asset quality performance over the long term.

Liquidity position: Adequate

SKISL had an unencumbered cash balance of Rs. 8.7 crore and undrawn bank lines of Rs. 5.9 crore, as on July 31, 2024, along with encumbered fixed deposits of Rs. 25.7 crore. It has a repayment obligation of Rs. 8 crore (cash credit limit), which is renewable. It does not have any other debt on its book as it operates as a BC partner. The collections are for the BC partner and SKISL earns income on such loans. Its liquidity is sufficient to cover its operating expenses and FLDG invocation.

Rating sensitivities

Positive factors – The company's ability to profitably scale up its operations while keeping its asset quality under control could be a positive factor.

Negative factors – A significant decline in the scale and/or continuous operating losses could be negative factors. A stretched liquidity position could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in August 2010, Sub-k Impact Solutions Limited (previously known as Basix Sub-K iTransactions Ltd) is registered under the Indian Companies Act. It was promoted by Hyderabad-based Bhartiya Samruddhi Investments and Consulting Services Ltd (BASICS).

SKISL was set up to enable financial inclusion by providing affordable and accessible digitised services with a mobile technology based transactional platform. These include banking services, savings, National Rural Employment Guarantee Act (NREGA) and other government payments, money transfers, and utility payments through a network of basic convenience outlets (BCO) operated by company agents.

It also acts as a business correspondent (BC) to banks and facilitates them by originating microcredit loans. The BC operations commenced with a tie-up with RBL Bank Ltd (RBL), initially undertaken by Indian Grameen Services (IGS), another entity promoted by BASICS. IGS started operating as a BC of RBL in 2013 and the portfolio was finally transferred to Basix Sub-K in July 2015. Currently, SKISL has BC arrangements with 10 partners.

Key financial indicators (audited)

SKISL	FY2022	FY2023	FY2024
Total income	100.1	78.3	110.0
PAT	(29.6)	(26.8)	(7.3)
Total managed assets	894.0	607.0	1,137.8
Return on managed assets	(2.7%)	(3.6%)	(0.8%)
Adjusted gearing (times)	0.0	0.0	0.1
Gross stage 3	-	-	-
CRAR	-	-	-

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Sep 02, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based cash credit facility	Long term	14.0	[ICRA]BB (Stable)	11-Jul-23	[ICRA]BB (Stable)	26-May-22	[ICRA]BB (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based cash credit facility	Simple

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	**Fund-based cash credit facility**	Feb 07, 2024	9.5%	Feb 06, 2025	14.00	[ICRA]BB (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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