

Bharat Financial Inclusion Limited

November 02, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term borrowing programme	300.00	100.00	[ICRA]A+%/A1+; Reaffirmed
Commercial paper programme	450.00	100.00	[ICRA]A1+; Reaffirmed
Total	750.00	100.00**	

*Instrument details are provided in Annexure-1

**Overall ICRA rated debt should not exceed Rs. 100 crore

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) for the Rs. 100-crore¹ (revised from Rs. 300 crore) long-term borrowing programme and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 100-crore (revised from overall rating of Rs. 750 crore) short-term borrowing/commercial paper programme of Bharat Financial Inclusion Limited (BFIL)². The long-term rating continues to be 'under watch with positive implications'.

Rationale

The ratings continue to factor in BFIL's established track record of operating in the microfinance segment, its market position as one of the leading microfinance institutions (MFIs; gross loan portfolio of Rs. 15,482 crore as on September 30, 2018), and its good capitalisation indicators (net worth/managed advances of 23.3% as on September 30, 2018). The ratings also take into account the company's geographically diversified portfolio (operations in 19 states) and its policy of maintaining exposure caps at the state, district and branch levels. The ratings also factor in BFIL's experienced management team, its good risk management, internal audit and MIS systems. The long-term rating is, however, constrained by the risks associated with unsecured lending, political risks, and operational risks arising out of cash handling. The company's dependence on wholesale funding sources and the limited diversity in its earnings are also credit challenges.

The long-term rating continues to be 'under rating watch with positive implications', factoring in BFIL's proposed merger with IndusInd Bank Limited (IBL), which is pending National Company Law Tribunal (NCLT) and shareholder approvals. The merger has already received regulatory approval from the Reserve Bank of India (RBI), Competition Commission of India (CCI), Securities and Exchange Board of India (SEBI) and the stock exchanges while the filing with the NCLT has been completed. As per the arrangement, BFIL will merge with IBL and all its assets and liabilities would be merged with IBL. A wholly-owned subsidiary of IBL will be incorporated after the receipt of the requisite regulatory and shareholder approvals for the bank's business correspondent (BC) operations. BFIL's existing employees will be a part of the wholly-owned subsidiary. The swap ratio for the merger would be 639 shares for IBL for every 1,000 shares of BFIL. The transaction is expected to take another 4-6 months, is expected to positively impact BFIL's credit profile. The merged entity would benefit from a large complementary branch network, access to a large customer base, lower cost of funds, potential for ancillary products and risk-weight advantages. ICRA will continue to monitor the developments closely and take appropriate rating action once the transaction is concluded.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Not Applicable

Outlook on the long-term rating is not applicable as the rating is 'under rating watch with positive implications'.

Key rating drivers

Credit strengths

Geographically diversified portfolio with presence in 19 states - BFIL is the largest MFI in the country, in terms of portfolio size, and has grown at a CAGR of 44% over the last 3 years. It has been providing microfinance loans to female borrowers for over 12 years and is spread across 19 states through 1,708 branches with over 67.45 lakh active borrowers as on September 30, 2018. The company's portfolio is largely rural (around 80% as on June 30, 2018) and geographically well diversified, with no state accounting for more than 20% of the portfolio as of September 30, 2018.

Experienced board and management team and good systems have enabled the company to scale up operations profitably - BFIL has a 9-member board, with a good representation of investors and independent directors. The senior management team is experienced, and the company has developed strong second and third lines of management. BFIL has robust loan origination, monitoring and collection systems. However, the client onboarding process may have to be reoriented to accommodate the recent ruling of the Supreme Court of India, which bars certain provisions of the Aadhar Act including Aadhar-based biometric authentication by private companies. Internal audits are conducted monthly and the scope and coverage are in line with industry practices. The company has a risk management team, which prepares the guidelines for credit risk, geographical concentration, introduction of cross-sell products, and assessment of the various businesses and operating risks.

Strong capitalisation levels; incremental capital requirements low owing to moderate growth plans and healthy expected internal capital generation - BFIL's capitalisation indicators remain comfortable with net worth in relation to the managed loan portfolio at 23.3% as on September 30, 2018 supported by good internal capital generation (RoE of 22.24% in H1 FY2019 and 21.10% in FY2018).

Comfortable liquidity position and financial flexibility; strong ability to raise funds from diverse sources - BFIL's liquidity position remains comfortable owing to a conservative liquidity policy, adequate cash balances (cash in hand of Rs. 302 crore as on September 30, 2018), sanctioned but unutilised funding lines of ~Rs. 3,500 crore and continued funding post demonetisation. The company's ability to maintain good asset quality and liquidity profile will be a key rating sensitivity, going forward.

Strong recovery in asset quality post deterioration in the aftermath of demonetisation - The company's asset quality numbers were comfortable with gross and net NPA of 0.4% and 0.1%, respectively, as on September 30, 2018, supported by good collection efficiency of fresh disbursements. However, the asset quality in the MFI segment remains exposed to political risks (for instance, debt waivers announced by the Government, competing programmes at subsidised rates, other regulatory actions), natural calamities and epidemics given the unsecured nature of the portfolio.

Credit challenges

Dependence on wholesale funding sources for borrowing requirements – Given its non-deposit accepting nature, BFIL remains dependent on wholesale funding sources for meeting its funding requirements. However, given that the ALM maturity profile is favourable, the company did not have any borrowings from debt markets and had over 30 lending and BC relationships. ICRA does not foresee funding to be a challenge for BFIL in the near term, despite the tight liquidity situation in the market.

Marginal borrower profile with limited ability to absorb income shocks – The ratings factor in the risks associated with the marginal borrower profile, unsecured lending business, political risks, and the operational risks arising out of cash handling, along with challenges associated with the high pace of growth and high attrition rates. While access to credit bureaus and regulatory ceilings on borrower indebtedness have reduced concerns on overleveraging and multiple lending, issues related to multiple identity proofs as well as gaps in information available with the bureaus (lack of data related to the self-help group (SHG) programme, non NBFC-MFIs, lending through the BC model) remain.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Rating Methodology for Non-Banking Finance Companies](#)

About the company

Bharat Financial Inclusion Limited (erstwhile SKS Microfinance Limited) is an NBFC-MFI catering to the financial needs of poor women through the JLG mechanism. SKS was established as a non-governmental organisation (NGO) under the name Swayam Krishi Sangama in 1998. This not-for-profit entity was subsequently renamed SKS Microfinance Limited and registered as an NBFC in January 2005. The company received an NBFC-MFI licence in November 2013. SKS Microfinance Limited was renamed Bharat Financial Inclusion Limited in June 2016. BFIL's portfolio witnessed a growth of around 44% over the past three years, with a book of Rs. 15,482 crore as on September 30, 2018, which is diversified across 19 states in India with a branch network of 1,708 branches. As on September 30, 2018, BFIL's gross and net NPAs stood at 0.4% and 0.1%, respectively.

For H1 FY2019 (as per Ind AS), BFIL reported PAT of Rs. 375 crore on AUM of Rs. 15,482 crore, while for FY2018 (as per Ind AS), BFIL reported a profit after tax (PAT) of Rs. 589 crore on assets under management (AUM) of Rs. 12,575 crore. The company was adequately capitalised with CRAR of 31.3% as of September 2018.

For FY2017 (As per previous GAAP), BFIL reported a PAT of Rs. 290 crore on AUM of Rs. 9,150 crore.

Key financial indicators (audited)

	FY2017	FY2018	H1 FY2019
Net interest income*	848	1,277	883
Profit before tax	193	660	491
Profit after tax	290	589	375
Gross advances	9,150	12,575	15,482
Total assets	10,418	12,179	12,110
% Tier 1	33.0%	32.6%	30.4%
% CRAR	33.5%	33.2%	31.3%
Gearing	2.9	2.7	2.1
% Net profit/Average managed assets	2.6%	4.3%	4.7%
% Return on net worth	15.1%	21.1%	22.2%
% Gross NPAs (Non-AP)	6.0%	2.2%	0.4%
% Net NPAs (Non-AP)	2.7%	0.1%	0.1%
Net NPA/Net worth (Non-AP)	7.6%	0.3%	0.3%

Source: ICRA research and company; Amounts in Rs. crore

*Net interest income (excluding loan processing fees) = Interest income on portfolio loans + Net gain on derecognition of loans sold under assignment transaction + BC fee – Financial cost

FY2017 numbers as per previous GAAP, while FY2018 and H1FY2019 numbers as per Ind AS

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating November 2018	Date & Rating in FY2018 October 2017	Date & Rating in FY2017 January 2017	Date & Rating in FY2016	
								July 2015	April 2015
1	Long-Term/Short-term Borrowing Programme	Long Term/Short Term	100.00	-	[ICRA]A+%/A1+	[ICRA]A+%/A1+	[ICRA]A+ (Stable)/A1+	[ICRA]A+ (Stable)/A1+	[ICRA]A+ (Stable)/A1+
2	Commercial Paper Programme	Short Term	100.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Proposed	Long-term/short-term borrowing programme	NA	NA	NA	100.00	[ICRA]A+%/A1+
Proposed	Commercial paper programme	NA	NA	NA	100.00	[ICRA]A1+

Source: Bharat Financial Inclusion Limited

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