

December 30, 2019

BTI Payments Private Limited: Ratings reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	75.00	75.00	[ICRA]BBB (Stable); Reaffirmed
Fund based facilities –			
Short Term	435.00	435.00	[ICRA]A1; Reaffirmed
Total	510.00	510.00	

**Instrument details are provided in Annexure-1*

Note: The [ICRA]BBB (Stable) and [ICRA]A1 ratings were earlier denoted as [ICRA]BBB (SO) (Stable) and [ICRA]A1 (SO) respectively. In line with the SEBI guidelines, ICRA has discontinued the use of the (SO) suffix alongside rating symbols for denoting the ratings of instruments backed by structural features. The change in the suffix should not be construed as a change in the rating.

Rationale

Transaction structure for short-term fund-based facilities

BTI draws funds from the overdraft (OD) account for replenishment of cash in its White Label ATMs (WLAs). The lending banks have charge on the cash lying in the ATMs and NPCI receivables (cash dispensed plus the interchange fee). BTI also opens a current account with each of its sponsor banks. These OD / current accounts are directly credited by sponsor bank which receives the NPCI settlement for the set of BTI WLAs earmarked to it. The amount received is the aggregate of funds disbursed to customers through BTI WLAs sponsored by the bank plus the interchange fee. The settlement happens on the same or following day, i.e. T or T+1 cycle (RTGS settlement day). BTI again draws funds from the overdraft account for replenishment of cash in its WLAs. ICRA takes comfort from the fact that the entire transaction flow completes within a short span of one working day from the date of withdrawal with no intervention required from BTI.

Transaction structure for term loans

BTI has opened an Escrow Account with the lending bank and has given standing instruction to the Sponsor Bank to transfer a specified amount in the Escrow Account on a daily basis. The daily transfer would happen after meeting the payments due in lieu of the working capital debt. The transfer shall be made from the interchange fee received in BTI's account with the Sponsor Bank as part of NPCI settlement. The transfer amount is arrived at by taking into consideration the amount of instalment due and the number of working days during the debt servicing period and is supposed to be recalibrated every six months. The term loan is further supported by a Debt Service Reserve Account (DSRA) equivalent to 2 months of ensuing debt obligations and cash collateral of 10% of the facility amount (Rs. 7.50 crore).

Rating rationale

The short-term rating reflects the inherent strength of the overdraft facility being rated, and the short fund flow cycle of the company, wherein the funds drawn under the overdraft facility get repaid to the overdraft bank at a priority pursuant to the settlement proceeds received from the daily settlement from NPCI. The rating for the OD facility is

however constrained by the fact that, there continues to be reliance on the company's operating cash flow for servicing the interest on the facility.

The long-term rating for the term loan considers credit enhancement from the payment mechanism involving daily transfer of funds from the Sponsor Bank to the lender, and 2 months' DSRA and cash collateral to the extent of 10% of the term loan.

The ratings continue to consider the longstanding experience of the promoter group (The Banktech Group, Australia) in the White Label ATM (WLA) industry, healthy market share of the company in the Indian WLA market (upwards of 35% during H1 FY2020) and strong geographical diversification with BTI currently having presence in 15 states across the country. The company's average transaction per ATM per day during H1 FY2020 stood at 106 as against 102 during FY2019 and 83 during FY2018 supporting scale benefits and resulting in sustained cash profits over the 14-month period ending November 2019. ICRA also notes the recent equity infusion of Rs.105 crore from the existing promoters/investors which has strengthened the company's capital structure and liquidity position. Going forward, the promoters/investors are expected to infuse an incremental Rs.45 crore into the company during FY2021. Funds from the same are expected to be utilized in the ongoing WLA expansion of the company.

The ratings also consider the company's revenues and profitability being highly dependent on the volume of transactions at its ATMs, its highly capital-intensive nature of business and financial profile characterized by net losses and weak coverage indicators on account of high dependence on debt for its working capital requirements. Further, ICRA also notes that BTI is exposed to regulatory risks such as regulator-controlled interchange, requirement for minimum net worth criteria and incremental cost to be incurred for incorporating the new security measures at ATMs as proposed by the regulator etc. Over the next 4-5 years, BTI is expected to expand its WLA network across the country by incurring capex of ~Rs.600-700 crore. While the same is likely to be funded through a mix of equity infusion, external debt and internal accruals, ICRA will continue to monitor the effect of the same on BTI's margins and debt metrics and will take appropriate rating action, if necessary.

Key rating drivers and their description

Credit strengths

Transaction structure - The long-term rating considers the structural features of the term loan facility such as the payment mechanism involving daily transfer of funds from the Sponsor Bank to the lender, and the credit enhancement available in the form of DSRA and cash collateral of 10%. The short-term rating considers the inherent strength of the overdraft facility being rated wherein the funds drawn under the overdraft facility get repaid to the overdraft bank at a priority pursuant to the settlement proceeds received from the daily settlement from NPCI.

Strong promoter Group and recent equity infusion from existing investors- Longstanding experience of the promoter group (The Banktech Group, Australia) in the WLA industry in addition to financial flexibility (in the form of continuous equity infusions over the past few years) enjoyed by the company. ICRA also notes the recent equity infusion of Rs.105 crore from the existing investors (Banktech Group and ICICI Ventures) which has strengthened the company's capital structure and liquidity position. Going forward, the promoters/investors are expected to infuse an incremental Rs.45 crore into the company during FY2021. Funds from the same are expected to be utilized in the ongoing WLA expansion of the company.

Strong market share and healthy geographic diversification – BTI’s business prospects are supported by healthy WLA transaction share of upwards of 35% as against 24.5% share in WLA count (as on August 2019), in addition to strong geographical diversification with the company currently having presence in 15 states across the country.

BTI had achieved cash breakeven during FY2019; cash profits continue in FY2020 – Post demonetisation and the ensuing currency crunch, in December 2016 RBI approving cash collection from retail sources like organized retail chains and smaller retail stores in urban and rural areas to replenish WLA ATMs. This, in addition to the income generated by providing cash management services to these retail entities had supported the company’s operating efficiencies (improved cash availability close to the ATMs) in turn supporting the company in breaking even at cash level during FY2019. RBI had repealed this provision in its circular dated March 7, 2019 but has notified that WLA entities can now source cash directly from RBI chests across the country. This is expected to result in higher availability of cash in all denominations, reduction in transportation and operational costs for the company going forward. Further, scale benefits (on the back of improving WLA network across the country) and steady increase in average transactions is expected to support the margins of the company going forward.

Credit challenges

Revenues and profitability remain highly sensitive to volume of transactions wherein lower volumes will impact the financial viability of the business; financial metrics were adversely affected by demonetization during November 2016 due to non-availability of cash and consequent decline in transactions. However, the company has also witnessed robust growth in its ATM transactions in FY2019 and H1 FY2020. That said, ICRA will continue to monitor the effect of BTI’s planned WLA expansion and its effect on margins and will take appropriate rating action, if necessary.

Highly capital-intensive nature of business – BTI is expected to incur substantial capital expenditure over the next few years to set up incremental WLAs across the country. The company is expected to incur capital expenditure to the tune of Rs.95 crore and Rs.110 crore during FY2020 and FY2021 respectively. While the same is likely to be funded through a mix of equity infusion, external debt and internal accruals, ICRA understands that the company will not breach the long-term debt/TNW level of 1.2x during the planned capex over the next 4-5 years.

Weak financial profile – Financial profile characterized by losses at the net level, modest capital structure (gearing of 6.2x and long-term debt/TNW of 1.4x as on March 31, 2019) and adverse coverage indicators (TD/OPBDITA of 43.3x as on March 31, 2019 and interest coverage of 1.0x during FY2019); while the balance sheet has improved to a certain extent on the back of the recent equity infusion, we expect the company’s debt metrics to strengthen further as the profitability improves over the next 2-3 years.

Exposure to regulatory risks given the nature of the industry such as regulator-controlled interchange, requirement for minimum net worth criteria and incremental cost to be incurred for incorporating the new features at ATMs as proposed by the regulator.

Liquidity Position:

The company’s liquidity position remains adequate with average utilization of 60% of its sanctioned working capital limits (of Rs.524.8 crore) during the 12-month period ending September 30, 2019. However, the company’s peak utilization of its working capital limits is expected to be relatively higher during 1-10 of every month, wherein the company witnesses the highest number of withdrawals at its WLAs. In terms of debt repayment, BTI has repayments of ~Rs.18.9 crore and Rs.21.2 crore during FY2020 and FY2021 respectively. Further, the company also has plans to incur significant capex of

Rs.400-420 crore over the next three years. While the recent equity infusion of Rs.105 crore has provided the required liquidity support to the company, profitability and successful ramp up of the company's new WLAs through the planned expansion will be a key credit monitorable for the company. Further, incremental equity infusion of Rs.45 crore during FY2021 is also expected to support the company's liquidity over the next 9-12 months.

Rating sensitivities

Positive triggers – The company's ratings could be upgraded if the company's average transactions increase steadily resulting in sustained increase in ROCE and the company's DSCR being greater than 2.0x on a sustainable basis.

Negative triggers – Negative pressure on BTI's ratings could emerge if there is significant drop in the company's margins in the wake of the ongoing expansion of its WLA network or any unforeseen/regulatory changes which in turn lead to deterioration in the company's debt metrics – specifically, Long-term Debt/TNW being greater than 1.2x will lead to a downgrade in the ratings. Further, non-adherence to terms of transaction structure/payment mechanism would also lead to a downgrade in the ratings.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on standalone financial statements of the company

About the company:

Incorporated in 2006, BTI was established as a wholly owned subsidiary of Banktech Group based out of Sydney in Australia. With its headquarters in Bangalore, BTI commenced its operations by managing Point of Sale (POS) terminals before diversifying into brown label ATM deployment. In the year 2013, BTI received in-principle approval from the RBI to deploy WLAs across India. During FY2014, IDBI Trusteeship Services Limited (fund managed by ICICI Venture Capital Management Company Limited) invested in BTI and acquired a shareholding of 48.95% while balance is currently held by the Banktech Group.

Under the WLA business, the company launched its first ATM under the brand 'India1' in Gubbi - a town in Tumkur District in the state of Karnataka on April 9, 2014 after receiving final approval from RBI during February 2014. BTI has expanded its WTA fleet from 3,416 in March 2016 to 5,042 as on March 31, 2019. The company is also involved in operating POS terminals supporting two banks in South India – based and is a managed service provider for 600+ ATMs for few South-based banks.

Key financial indicators (audited)

	FY 2018	FY 2019
Operating Income (Rs. crore)	175.3	229.3
PAT (Rs. crore)	-57.1	-23.7
OPBDIT/ OI (%)*	-12.4%	4.9%
RoCE (%)	-9.0%	-3.2%
Total Debt/ TNW (times)	6.2	8.9
Total Debt/ OPBDIT (times)*	-22.4	43.3
Interest coverage (times)	-2.8	1.0

Source: the company; *interest on OD facility calculated as part of operational costs

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount O/S as on March 31, 2019 (Rs. Crore)	Current Rating	Earlier Rating	Date & Rating FY2019		Date & Rating in FY2018	Date & Rating in FY2017	
					30-Dec-2019	16-Apr-2019	16-Oct-2018	3-Oct-2018	6-Oct-2017	14-Oct-2016	11-Aug-2016
1.	Fund based facilities	Short Term	435.0	413.3	[ICRA]A1	[ICRA]A1 (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)
2.	Term Loans	Long Term	75.0	77.0	[ICRA]BBB (Stable)	[ICRA]BBB (SO) (Stable)	[ICRA]BBB (SO) (Stable)	-	-	-	-

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
NA	Overdraft facility	2018/2019	NA	NA	435.00	[ICRA]A1
NA	Term loan facility	2017	10.8%	FY2024	75.00	[ICRA]BBB (Stable)

Source: the company

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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