

October 25, 2022^(Revised)

Bhanix Finance and Investment Limited: [ICRA]BBB (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures programme	25.00	[ICRA]BBB (Stable); assigned
Total	25.00	

*Instrument details are provided in Annexure I

Rationale

To arrive at Bhanix Finance and Investment Limited (BFIL) rating, ICRA has taken a consolidated view of the credit profiles of BFIL and its holding company, Aeries Financial Technologies Private Limited (AFTPL), given their business linkages, common management and operational synergies. BFIL provides short-term unsecured personal loans to salaried individuals through the technology platform, CASHe with its competence reflected in the low turnaround time and the fully digitised process. Singapore-based TSLC Pte Ltd. (TSLC) holds a 51% stake in AFTPL and has licensed the CASHe mobile application to AFTPL for perpetual and exclusive use in India.

The rating factors in BFIL's adequate capitalisation for the current scale of operations with a consolidated net worth of Rs. 307 crore and a gearing of 1.5 times as on March 31, 2022 (1.7 times as on March 31, 2021). To continue supporting the loan book growth, the company received an equity infusion of Rs. 142 crore in FY2022 and plans a further infusion in FY2023 to support the leverage profile. Despite the impact of the Covid-19 pandemic on the borrower segment and the initial set-up costs, AFTPL remained profitable on a consolidated basis during FY2020-FY2022 while maintaining a high provision cover on stressed loans. Its profitability is supported by higher lending yields and net interest margins (NIMs), which remain adequate to cover the operating expenses and credit costs. However, given the aggressive growth plans, BFIL would require additional capital over the next 2-3 years. The rating also factors in BFIL's granular retail portfolio, comprising small-ticket loans to salaried individuals and shorter-tenor loans, supporting the liquidity profile.

The rating is, however, constrained by the inherent riskiness in BFIL's portfolio due to the unsecured nature of the loans and the moderate borrower profile. Hence, the asset quality is highly vulnerable to economic shocks or any other disruptions. Further, the company's track record is limited as the business was scaled up over the last two years. Hence, the asset quality indicators are yet to be tested across economic cycles as the loan book grows. BFIL's ability to contain its credit costs and maintain the overall profitability, while scaling up the loan book amid high competition, remains the key rating monitorable.

Key rating drivers and their description

Credit strengths

Adequate capitalisation for current scale of operations – BFIL's capitalisation profile is adequate for the current scale of operations with a consolidated net worth of Rs. 307 crore and a gearing of 1.5 times as on March 31, 2022. Over the last five years till FY2022, BFIL has received equity of Rs. 260 crore from AFTPL with the last equity infusion of Rs. 142 crore in FY2022. AFTPL has received equity funding from the promoters/promoter-owned entities. Further, AFTPL has reported a consolidated net profit over the last three years till FY2022 that has added to its capital buffer. ICRA expects another round of equity infusion at BFIL through AFTPL in FY2023 to support the growing operations.

Given the expectation of higher growth in the medium term, BFIL would continue to need equity infusions over the medium term to maintain prudent capitalisation levels. Also, maintaining prudent capitalisation will be one of the key mitigants against delinquencies and other credit risks associated with the business.

Profitability supported by higher yields – At the consolidated level, AFTPL reported a net profit during the last three years (FY2020-FY2022). With the improved scale of operations and the moderation in the credit costs, AFTPL reported an improvement in the return on average managed assets (RoMA) and return on equity (RoE) to 5.2% and 15.5%, respectively, in FY2022 from 1.2% and 3.4%, respectively, in FY2021 and 3.6% and 9.2%, respectively, in FY2020. The profitability was impacted in FY2021 due to the pandemic that affected the business growth and margins.

The healthy profitability was supported by the higher yields earned by the company. BFIL earns an average yield of around ~40-45% and NIM of ~22-25% on its lending book, which remains adequate to absorb the higher operating expenses and credit costs. BFIL's average yield stood at 40% in FY2022 while the NIM stood at ~25%. The opex/ATA ratio remained at 14% while credit costs stood at 8% in FY2022. BFIL's credit costs increased in Q1 FY2023 due to the changes in the business environment and reshuffling of the collection agencies, resulting in a decline in the profitability. ICRA expects AFTPL to report RoMA of 2.0-2.5% in FY2023. ICRA will continue to monitor the company's ability to maintain its profitability while scaling up the loan book amid intense competition.

Granular loan portfolio – BFIL's portfolio is granular, comprising small-ticket loans to salaried individuals with a ticket size in the range of Rs. 1,000-Rs. 4 lakh. About 7% of the assets under management (AUM) comprised very small-ticket loans of less than Rs. 10,000 and 38% of the AUM comprised loans with a ticket size up to Rs. 50,000 as on June 30, 2022. The short tenure of the loans (3-18 months) also provides support to the liquidity profile.

Credit challenges

Limited track record – Although BFIL started operations in 2017, the loan book was scaled up over the last two years. The AUM (including off-book portfolio) grew 37% in FY2021 and 120% in FY2022 to reach Rs. 715 crore as on March 31, 2022. As the loan tenor remains short, the portfolio experiences fast amortisation. Even after considering the loan disbursements, 41% of the total loan disbursements (Rs. 5,200 crore, since inception) was done in FY2021 and FY2022. The company's track record seems limited because the asset quality indicators are yet to be tested across economic cycles as the business scales up.

Moderate borrower profile and asset quality – The inherent riskiness in BFIL's portfolio remains high due to the unsecured nature of the loans and the moderate borrower profile. BFIL's borrowers comprise the salaried individuals segment, a sizeable portion of which is new to credit or has a low credit score and is hence not serviced by banks. BFIL reported gross non-performing advances (NPAs; 8.5% of AUM as on March 31, 2022 compared to 6.7% as on March 31, 2021 and 7.8% as on March 31, 2020. Credit costs, as a percentage of loan disbursements, increased to 4.1% in FY2021 due to the pandemic-induced stress, but declined to 3.2% in FY2022. Further, multiple headwinds like the evolving regulatory framework for digital lending and alterations in the collection framework mainly for collection agencies, resulted in a drop in the collection efficiency (excluding prepayments) to ~82-85% for Q1 FY2023. Hence, the annualised credit cost increased to 5.1% of loan disbursements in Q1 FY2023. However, ICRA notes the subsequent improvement in the collection efficiency (excluding prepayments) to ~87-90% in September 2022. ICRA will continue to monitor the company's ability to contain its credit costs and remain profitable while scaling up the loan book amid intense competition.

Liquidity position: Adequate

BFIL's liquidity position is adequate with no negative cumulative mismatches in the asset-liability management (ALM) statement as on August 31, 2022 owing to the short tenure of the loan book. The company's unencumbered cash and bank balance stood at Rs. 29 crore. As on August 31, 2022, the expected inflows from advances in the next 1 year stood at Rs. 707 crore compared to debt repayments of Rs. 472 crore during this period.

BFIL's borrowing is largely dominated by non-banks with a share of 57% of the total borrowings as on March 31, 2022, though the same declined from 67% as on March 31, 2021. The share of banks share stood at 17% while debentures accounted for 25% of the total borrowings as on March 31, 2022. BFIL has increased its funding relationships to more than 30 lenders as on March 31, 2022 from 7 as on March 31, 2018.

Rating sensitivities

Positive factors – An increase in the scale of operations along with an improvement in the profitability indicators, while maintaining good asset quality and a prudent capitalisation structure on a sustained basis, could lead to a rating upgrade.

Negative factors – A decline in the scale of operations or a deterioration in the asset quality indicators, resulting in pressure on the profitability indicators, could lead to a rating downgrade. Pressure on the company's rating could also arise if the managed gearing¹ exceeds 4 times on a sustained basis.

Analytical approach

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

About the company

Bhanix Finance and Investment Limited (BFIL) was incorporated in 1996 as a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). Aeries Financial Technologies Private Limited (AFTPL) acquired a 100% stake in BFIL in 2017. TSLC Pte Ltd. (TSLC), a Singapore-based company, had a 51% stake in AFTPL as on March 31, 2022, while the balance was held by other promoter-owned entities and other investors. TSLC was founded in 2016 by Mr. V. Raman Kumar and Mr. Deepak Saluja to drive financial inclusion through credit-led artificial intelligence/machine learning platforms. TSLC developed a digital lending platform called CASHe in 2017 and owns all the intellectual property and technology related to CASHe. TSLC has digital lending operations through different operating entities in India, Bangladesh and Dubai.

BFIL provides short-term unsecured personal loans to salaried individuals through CASHe. Its competence lies in the low turnaround time and the fully digitised loan process. BFIL focuses on new-to-credit borrowers and borrowers not getting loans from banks. TSLC has licensed the CASHe mobile application to AFTPL for perpetual and exclusive use in India. In turn, AFTPL has sublicensed the application to BFIL. The licence is irrevocable, exclusive, non-transferrable and perpetual in nature.

¹ Managed gearing = (Total debt + off-book assets)/Net worth

Key financial indicators (audited)

AFTPL (consolidated)	FY2020	FY2021	FY2022
Total income	133	106	247
Profit after tax	9	4	34
Net worth	127	130	307
Loan book (including off-book)	238	325	715
Total assets	308	410	843
Return on managed assets ²	3.6%	1.2%	5.2%
Return on net worth	9.2%	3.4%	15.5%
Gross NPA	7.8%	6.7%	8.5%
Net NPA	0.0%	0.0%	1.5%
Gearing (times)	1.1	1.7	1.5
Manage gearing (times)	1.1	1.7	1.7
Net NPA / Net worth	0.0%	0.0%	3.1%

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

BFIL (standalone)	FY2020	FY2021	FY2022
Total income	123	98	233
Profit after tax	9	9	22
Net worth	120	129	292
Loan book (gross)	238	325	715
Total assets	294	400	822
Return on managed assets	4.0%	2.6%	3.4%
Return on net worth	10.2%	7.2%	10.4%
Gross NPA	7.8%	6.7%	8.5%
Net NPA	0.0%	0.0%	1.5%
Gearing (times)	1.1	1.7	1.5
Managed gearing (times)	1.1	1.7	1.7
Net NPA / Net worth	0.0%	0.0%	3.3%
CRAR	43.9%	33.9%	37.2%

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

² Managed assets is the sum of total assets and off-book assets

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Oct 25, 2022			
1	Non-convertible debentures	Long term	25.00	-	[ICRA]BBB (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	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 / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Yet to be placed	Non-convertible debentures	NA	NA	NA	25.00	[ICRA]BBB (Stable)

Source: Company

Annexure II: List of entities for considered for consolidated analysis

Company Name	Ownership	Consolidation
Aeries Financial Technologies Private Limited	Holding company	Full consolidation
Bhanix Finance and Investment Limited	Subsidiary company	Full consolidation

Corrigendum

Document dated October 25, 2022, has been corrected with revisions as detailed below:

Page No.	Location on Page	Previous data	Revised data
3	Analytical approach	Incorrect Link for Rating Approach – Consolidation	Updated the link for Rating Approach – Consolidation
3	Analytical approach	Rating Approach – Consolidation not added	Added the Rating Approach – Consolidation
8	Relationship contacts details	Incorrect contact details mentioned	Updated the contact details

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