

September 26, 2017

Basix Sub-k iTransactions Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund based CC limits	8.00 (enhanced from Rs. 6 crore)	[ICRA]BB-@; assigned/outstanding
Term loans	2.00	[ICRA]BB-@; rating withdrawn
Total	8.00	

@ signifies rating on watch with negative implications

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BB- (pronounced ICRA double B minus)¹ to the Rs. 2 crore (total CC limits enhanced to Rs. 8 crore from Rs. 6 crore) cash credit facility and has withdrawn the same rating outstanding for the Rs. 2 crore term loans of Basix Sub-k iTransactions Limited (Basix). The rating for the term loans is withdrawn at the request of the company as there is no amount outstanding. The rating remains on 'watch with negative implications'.

Rationale

The rating factors in Basix's weak asset quality indicators with PAR 90+ days past due at 6.7% as on June 30, 2017 (4.2% as on March 31, 2017) on a risk bearing managed portfolio of Rs. 223 crore as on June 30, 2017 (Rs. 228 crore as on March 31, 2017) post the event of demonetisation. The non-risk bearing portfolio was same at Rs. 208 crore as on June 30, 2017 and as on March 31, 2017. The overall managed portfolio, including the managed non-credit portfolio was Rs. 431 crore as on June 30, 2017 and Rs. 436 crore as on March 31, 2017. While Basix's financial risk is limited to the first loss default guarantee (FLDG) requirement for risk bearing portfolio, its capitalisation profile (net worth to risk bearing managed assets of 4.1% as on March 31, 2017) is likely to deteriorate if the partner banks were to provide for FLDG requirement on the delinquent portfolio.

The company's operations are geographically concentrated with nearly 75% of the total managed portfolio as on June 30, 2017 being in Maharashtra, followed by Karnataka (14%), Chhattisgarh (8%), Goa (3%) and others. The company operated through 144 branches in 47 districts as on June 30, 2017. Following the demonetisation action of the Government of India in November 2016, microloan collections in the Maharashtra region were affected because of rumours of farm loan waivers and instances of political interference. Given the company's portfolio concentration in the state, its collections deteriorated sharply and delinquencies increased. The rating also takes into account the company's experienced management team, limited financial flexibility and weak capitalisation profile as on March 31, 2017. The company's profitability remained stagnant with PAT at 0.5% of managed advances during FY2017 as compared with 0.3% during FY2016. ICRA notes that the company is in advanced stages to raise equity capital in the near term. ICRA will continue to closely monitor the company's performance, specifically its portfolio collection efficiency, delinquencies and equity infusion, and would take a suitable rating action once more clarity emerges on the same.

¹For complete grading scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

Key rating drivers

Credit strengths

- **Experience of promoters and management team in the microfinance sector spanning over 15 years:** Incorporated in 2010, the company's objective is to provide easy access to credit in rural areas. The company, which lends through the Business Correspondent (BC) route, is managed by professionals with vast experience in the microfinance industry.
- **Diverse product mix:** The company has a diverse product mix under its managed book –under the reference model, which formed nearly 48% of the portfolio as on March 31, 2017, it offers basic banking services and payment and distribution services (remittance, digital payment) and under the full service model (credit operations), it provides loans using the joint liability group (JLG) model.
- **Good internal control systems and processes:** The company has good internal control and audit systems in place for its current scale of operations. The branches are audited quarterly by the BC partner bank.

Credit weaknesses

- **Weak asset quality indicators post demonetisation:** Basix's asset quality is weak with PAR 0+ and PAR 90+ pegged at 7.8% and 6.6% respectively as on June 30, 2017 (PAR 0+ and 90+ pegged at 6.7% and 4.2% as on March 31, 2017) on its BC portfolio. The FLDG requirement is 3% of the outstanding risk bearing BC credit portfolio. The high delinquencies followed by low collections during demonetisation resulted primarily from Maharashtra, which forms nearly 75% of the total portfolio as on March 31, 2017.
- **Marginal borrower profile leads to high portfolio vulnerability:** Given the marginal borrower profile and the risk of overleveraging relative to the borrower's debt repayment capacity, micro loan portfolios fundamentally are vulnerable to a high level of volatility. If the company's collections in the Maharashtra region do not improve in the near term, the FLDG provided by Basix to the partner bank may be raised, leading to further weakening of the capitalisation indicators.
- **Limited net worth and hence limited cushion available to absorb credit losses or any increase in operating expenses:** Given its limited net worth of Rs. 9.53 crore as on March 31, 2017 and an imminent risk of invocation of nearly Rs. 6.30 crore maintained as FLDG, the company has very limited cushion available to absorb credit losses or any increase in operating expenses. Given the pressure on net worth in light with high delinquencies, Basix needs to urgently raise equity.
- **Profitability profile remains modest:** Basix's profitability indicators (PAT/average managed assets of 0.5% during FY2017) remain modest owing to its relatively low net operating income and high operating expenses. The company's ability to improve profitability for both credit and non-credit operations and contain costs will be critical for its overall profitability profile.

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

Basix Sub-k iTransactions Limited (Basix), incorporated in August 2010, is promoted by Bhartiya Samruddhi Investments and Consulting Services Ltd (BASICS) and aims to support financial inclusion by full portfolio of services that include basic banking services, savings, NREGA and other government payments, money transfers, utility payments, remittances through a network of Basic Convenience Outlets (BCO) operated by company agents. The company is an authorized BC of RBL Bank for lending under the JLG model, and State Bank of India, Reliance Capital Finance Limited (RCFL) and United Bank of India for MSME lending.

As on June 30, 2017, the company operated through a network of 144 branches across eight states and served about 2.85 lakh active customers. The company's non-credit BC operations are spread across 26 states covering around 280 districts.

Basix reported a profit after tax (PAT) of Rs. 2.33 crore during FY2017 on a managed asset base of Rs. 457 crore (managed portfolio of Rs. 436 crore) as compared with a PAT of Rs. 1.10 crore on a managed asset base of Rs. 405 crore during FY2016.

Key Financial Indicators (Audited)

	FY2016	FY2017
Total Income (Rs. crore)	28.06	43.76
PAT (Rs. crore)	1.10	2.33
Net-worth (Rs. crore)	7.20	9.53
Total Managed Portfolio (Rs. crore)	389.57	436.00
Total Managed Assets (Rs. crore)	404.80	456.69
ROMA %	0.3%	0.5%
ROE %	16.62%	27.85%

PAT: Profit after Tax; ROMA: Return on Managed Assets; ROE: Return on Equity

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Rating History for the past 3 years		
		Type	Rated amount	Sept 2017	Aug 2017	FY2017		FY2016
						Dec 2016	May 2016	
1	Cash Credit	Long Term	Rs. 8 crore*	[ICRA]BB-@; assigned	[ICRA]BB-@	[ICRA]BB-@	[ICRA]BB-(Stable)	NA
2	Term loans	Long Term	Rs. 2 crore	[ICRA]BB-@; rating withdrawn	[ICRA]BB-@	[ICRA]BB-@	[ICRA]BB-(Stable)	NA

@ signifies rating put on watch with negative implications

*enhanced from Rs. 6 crore

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

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
Cash Credit facility	-	-	-	8.00*	[ICRA]BB-@

@ signifies rating on watch with negative implications

*Enhanced from Rs. 6 crore



Analyst Contacts:

Mr. Rohit Inamdar (Tel. No. +91-124-4545847)
rohit.inamdar@icraindia.com

Ms. Supreet Nijjar (Tel. No. +91-124-4545324)
supreetan@icraindia.com

Mr. Rajat Mehta (Tel. No. +91-124-4545377)
rajat.mehta@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500