

BTI Payments Private Limited

April 16, 2019

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	75.00	75.00	[ICRA]BBB(SO)(Stable); Outstanding
Fund based facilities – Short Term	385.00	435.00	[ICRA]A1 (SO); Assigned/Outstanding
Total	460.00	510.00	

Transaction structure for short-term fund-based facilities

BTI opens a current account with each of its sponsor banks for receipt of funds from National Payment Corporation of India (NPCI)¹ on a daily basis; funds received into each of these current accounts pertains to a set of BTI White Label ATMs (WLA) earmarked for it. These current accounts are credited by sponsor bank which receives the NPCI settlement to the extent of the amount of funds disbursed to customers through BTI WLAs sponsored by the bank on the following day, i.e, T+1 cycle (RTGS settlement day). BTI then gives RTGS instructions for transfer of the requisite funds from its current accounts to its overdraft account with each of its working capital lending banks (some of which are also sponsor banks). BTI again draws funds from the overdraft account for replenishment of cash in its WLAs. The lending banks have charge on the cash lying in the ATMs and NPCI receivables.

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 the 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 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 an SBLC for 10% of the facility amount (Rs. 7.50 crore) from the Promoter Group.

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 the funds cycle is not entirely automated but continues to be partly dependent on actions to be taken by BTI - the transfer of funds from BTI's current account to the overdraft account needs to be executed by BTI presently. Further, there continues to be reliance on the company's operating cash flow for servicing the interest on the facility.

¹ NPCI is the settlement body responsible for all the ATM transactions across the country.

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 SBLC to the extent of 10% of the term loan from the Promoter Group.

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 (37.5% as on January 2019) 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 FY2019 stood at 102 as against 83 during FY2018 supporting the overall improvement in scale and margins of the company. According to unaudited figures, during FY2019, BTI witnessed healthy revenue growth of 30.4% while achieving OPBDITA break even and generating cash profit of Rs.4.1 crore aided by scale economies.

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 continued net losses which have led to further erosion in BTI's net worth position as on March 31, 2019. ICRA also notes that while the company is required to maintain a net worth of Rs.100 crore at any given point of time as per RBI's directives for WLA, the company's net worth as on March 31, 2019 stood at Rs. 50.5 crore (against Rs.78.9 crore as on March 31, 2018) due to continuous erosion of net worth over the last few years. While the company was expected to raise equity to the tune of Rs.70-100 crore during FY2019, the same has not materialized and the company continues to scout for strategic investors to raise further equity. ICRA notes that equity infusion will be critical and imperative to BTI's expansion plan going forward and is a key credit monitorable for the company over the next six months.

The company has requested the RBI for a waiver pertaining to the aforementioned net worth requirement and has also represented to the RBI directly and through CATMI (Confederation of ATM Industry) for increase in the interchange fee. However, RBI is yet to formally respond to the same. Nevertheless, the company has received renewal of its WLAO licence till March 31, 2020 recently. ICRA will continue to monitor and will take appropriate rating action, if necessary, over the short term.

Outlook: Stable

ICRA believes BTI will continue to benefit from its diversified geographic profile and healthy transaction share in the Indian WLA market. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to 'Negative' following weaker than expected credit profile, lower than expected cash accruals, or debt-funded capex resulting in liquidity strain or weakening of the company's debt metrics. Absence of adequate equity support within stated timelines could also have an impact on the ratings.

Key rating drivers

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 SBLC from the Promoter Group. 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.

Promoter Group - 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.

Strong market share and healthy geographic diversification – BTI's business prospects are supported by healthy WLA transaction share of around 37.5% with only 27% share in WLA count (as on February 2019) in addition to strong geographical diversification with the company currently having presence in 15 states across the country.

Sourcing of cash directly from RBI chest to ensure higher cash availability and reduce costs going forward – 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 OPBDITA level during FY2019. RBI has recently 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. The same is expected to result in higher availability of cash in all denominations, reduction in transportation and operational costs for the company going forward.

Credit challenges

Revenues and profitability remain highly sensitive to volume of transactions wherein lower volumes may 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 over the last 12 months.

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 was expected to be partially funded by equity of Rs.70-100 crore which was to be raised in FY2019, the same has not materialized and the company continues to scout for strategic investors to raise equity. ICRA notes that equity infusion will be critical and imperative to BTI's expansion plan going forward and is a key credit monitorable for the company.

Weak financial profile – Financial profile characterized by losses at the net level, weak cash flows, modest capital structure (6.2x as on March 31, 2018) and adverse coverage indicators (TD/OPBDITA of 35.6x as on March 31, 2019 and interest coverage of 1.2x during FY2019). During Q1 FY2019, BTI had also raised a fresh term loan of Rs. 15 crore at an interest rate of 16.75% to ensure ample liquidity. While the company had planned to repay the same once equity infusion was received during FY2019, the same continues to remain on books of the company as on date.

Liquidity Position:

On an average, the company utilized 66.2% of its sanctioned working capital limits during the 12-month period ending March 31, 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 witnessed 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 capex plans of Rs.95 crore and Rs.110 crore respectively during FY2020 and FY2021. ICRA notes that equity infusion will be critical and imperative to BTI's expansion plan, debt repayment and liquidity position going forward and is a key credit monitorable for the company.

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 plans to set up a total of 9,000 WLAs across the country over the next few years. The company is also involved in operating POS terminals supporting three 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 (Provisional)
Operating Income (Rs. crore)	175.3	228.7
PAT (Rs. crore)	-57.1	-28.4
OPBDIT/ OI (%)*	-12.1%	5.7%
RoCE (%)	-9.0%	-3.4%
Total Debt/ TNW (times)	6.2	9.2
Total Debt/ OPBDIT (times)*	-23.0	35.6
Interest coverage (times)	-2.7	1.2

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 last three years:

Instrument	Type	Amount Rated (Rs. crore)	Amount O/S as on March 31, 2018 (Rs Crore)	Current Rating (FY2019)	Chronology of Rating History for the past 3 years				
				Date & Rating FY2020	Date & Rating FY2019	Date & Rating in FY2018	Date & Rating in FY2017		
				April 2019	Oct, 2018	Oct, 2018	Oct 2017	Oct 2016	Aug 2016
1	Fund based facilities	435.0	388.3	[ICRA]A1 (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)
2.	Term Loans	75.0	76.8	[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 (SO)
NA	Term loan facility	2017	10.3%	FY2024	75.00	[ICRA]BBB (SO) (Stable)

Source: the company

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