

June 28, 2019

Bajaj Capital Limited: Rating downgraded to [ICRA]BBB-(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Cash Credit	3.50	3.50	[ICRA]BBB- (Stable); downgraded from [ICRA]BBB (Stable)
Long Term – Term Loan	20.75	20.75	[ICRA]BBB- (Stable); downgraded from [ICRA]BBB (Stable)
Long Term - Unallocated	0.75	0.75	[ICRA]BBB- (Stable); downgraded from [ICRA]BBB (Stable)
Total	25.00	25.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has downgraded the Rs. 25-crore bank lines of Bajaj Capital Limited to [ICRA]BBB- (Stable) from [ICRA]BBB (Stable). To arrive at the rating, ICRA has analysed the consolidated business and financial performance of Bajaj Capital Limited (BCL) and its Group company, Bajaj Capital Insurance Broking Limited (BCIBL), referred to as the Bajaj Group consolidated), as both companies have a common management, shared brand name and strong intra-group operational linkages.

The rating downgrade reflects the Group's deteriorating financial profile and profitability indicators due to a decline in commission income earned through the mutual fund distribution business. The reported consolidated net profit declined by 60% on a consolidated basis in FY2019 resulting in constrained financial flexibility of the company. Even though BCL has managed to maintain its assets under management (AUM), the growth in AUM (1.28%) has been sluggish in FY2019 relative to the MF industry AUM growth of 11.38%.

The rating factors in the Group's established market position in the retail distribution of financial products with a large customer base and a wide distribution network. The rating also factors in the modest credit risk of operations, low leverage (standalone gearing of 1.27 times and consolidated gearing of 0.24 as on March 31, 2019) and the stable revenue stream of trail income on mutual fund assets which provides adequate cover to debt holders.

The rating is however constrained by the moderate profitability (standalone return on equity (RoE) of -64.52% and consolidated ROE of 9.69% during FY2019) owing to high operating expenses (standalone cost to income ratio of 113% and consolidated cost to income ratio of 94% during FY2019). ICRA also takes note of the relatively high receivables (consolidated debtors outstanding of 43 days as on March 31, 2019) though the risk is partly mitigated by the good profile of debtors. Given the current scale of operations, it would be imperative for the company to increase the business volumes in order to improve operating efficiencies and profitability. Overall, the business volumes and commission income remain vulnerable to capital market movements and any adverse regulatory changes.

Outlook: Stable

ICRA believes BCL will continue to benefit from its extensive distribution network and experienced senior management. The outlook may be revised to 'Positive' if there is a significant change in the company's credit profile with higher business volumes and improved profitability on a sustained basis. The outlook may be revised to 'Negative' if there is a significant deterioration in the company's financial and liquidity profile.

Key rating drivers

Credit strengths

Strong track record in distribution of financial products – The company has been operating for more than 50 years and has a wide distribution network with a large active customer base. This leads to considerable new business through referrals. BCL does not have any exclusive partnerships with asset management companies (AMCs), which enables it to provide diverse products to its clients. The company's strong market position is also reflected in its sizeable AUM in the mutual fund business which is a source of stable trail income that provides adequate cover to the debt holders.

Comfortable capitalisation – BCL has an adequate capital structure with a consolidated gearing of 0.24 times as on March 31, 2019 (0.19 times as on March 31, 2018). The low leverage is the result of a less capital-intensive business with a focus on working capital intensity which can be met through internal capital generation. The borrowings largely consist of bank overdraft lines of credit and the trail income provides a cushion for the interest servicing on these lines. The interest coverage indicators remain strong with consolidated interest coverage of 5.08 times as on March 31, 2019.

Credit challenges

Income streams vulnerable to narrowing down of trail commissions by regulator – With a significant proportion of its revenues being generated from the trail commissions on the distribution of mutual funds (41% on a consolidated basis as on March 31, 2019), BCL's income streams remain susceptible to the regulations on the total expense ratio (TER) charged by AMCs on mutual fund investments. With SEBI announcing a cap of 2.25% and 1.25% on the TER of open-ended and closed-ended mutual funds respectively, as well as imposing a ban on upfront commissions (except for SIPs), BCL's commission income has declined.

Modest profitability profile – BCL's profitability indicators remain modest, with the consolidated return on average assets and return on net worth of 5.40% and 9.69% respectively in FY2019 compared to 16.13% and 29.14% respectively in FY2018. The decline in profitability was on account of a decrease in the commission income on mutual funds. The company's cost-to-income ratio remains high at 94% in FY2019 compared to 88% in FY2018.

Intense competition in distribution of financial products – The market for the distribution of financial products (mutual funds, fixed income products and insurance products) is highly competitive and fragmented, with the presence of several banks, non-banking financial companies and brokerage firms. The competition has intensified further with the advent of specialised wealth management companies. Consequently, the overall margins are under pressure.

High debtor days – The company's consolidated debtor days remain high albeit an improvement from 49 as on March 31, 2018 to 43 as on March 31, 2019. This is due to a delay in payments received from AMCs, however, the risk is partly mitigated given the good credit quality of the debtors.

Liquidity position

The company's liquidity profile is moderate with a low working capital intensity indicated by NWC/OI of 0.01x as on March 31, 2019 on a consolidated basis. The debtor days remain high at 43 as on March 31, 2019 compared with 49 as on March 31, 2018. The creditor days have also come down to 31 as on March 31, 2019 compared with 48 as on March 31, 2018 on a consolidated basis due to a decrease in payables.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated business and financial profile of Bajaj Capital Limited (BCL) and its Group company, Bajaj Capital Insurance Broking Limited (BCIBL)

About the company:

Bajaj Capital Limited (BCL) is a part of the Bajaj Capital group of companies. The Group is engaged in investment advisory, financial planning and the distribution of financial products such as insurance, mutual funds, fixed income instruments and stock broking. The Group was promoted by Mr. K.K. Bajaj and commenced operations in 1964. It has a network of over 130 branches in India. The three Group companies– Bajaj Capital Limited, Bajaj Capital Insurance Broking Limited and Just Trade Securities Limited, share the same infrastructure, operations and sales staff.

BCL (standalone) reported a total income of Rs. 108.31 crore and a net loss of Rs. 12.09 crore in FY2019 compared with an income of Rs. 138.85 crore and a net profit of Rs. 4.51 crore in FY2018. The consolidated income of the Group was Rs. 207.28 crore in FY2019 compared with Rs. 210.69 crore in FY2018. At the consolidated level, the Group reported a net profit of Rs. 6.59 crore in FY2019 compared with a net profit of Rs. 16.47 crore in FY2018. BCL (consolidated) had a net worth of Rs. 71.34 crore as on March 31, 2019.

Key financial indicators (consolidated)

	FY2018	FY2019
Total Income	210.69	207.28
PAT	16.47	6.59
Net worth	64.76	71.34
Return on Assets	16.13%	5.40%
Return on Net Worth	29.14%	9.69%
Gearing (times)	0.19	0.24
Total Assets	110.33	134.02

Source: Company and ICRA research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	June 2019	FY2018 December 2017	FY2017 October 2016	FY2015 March 2015
1	Long Term – Cash Credit	Long Term	3.50	-	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Long Term – Term Loan	Long Term	20.75	-	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Long Term - Unallocated	Long Term	0.75	-	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (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	Cash Credit	7-July-2016	NA	NA	3.50	[ICRA]BBB-(Stable)
NA	Term Loan 1	16-Dec-2016	NA	16-Dec-2017	0.45	[ICRA]BBB-(Stable)
NA	Term Loan 2	5-Jan-2016	NA	5-Jan-2026	3.00	[ICRA]BBB- (Stable)
NA	Term Loan 3	26-March-2008	NA	26-Mar-2024	3.50	[ICRA]BBB- (Stable)
NA	Term Loan 4	30-Nov-2017	NA	28-Nov-2018	2.28	[ICRA]BBB- (Stable)
NA	Term Loan 5	NA	NA	NA	1.52	[ICRA]BBB- (Stable)
NA	Term Loan Proposed	NA	NA	NA	10	[ICRA]BBB- (Stable)
NA	Proposed bank lines	NA	NA	NA	0.75	[ICRA]BBB- (Stable)

Source: Bajaj Capital Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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