

Infibeam Avenues Limited

November 26, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan (Proposed)	100.00	100.00	[ICRA]A (Negative); Downgraded from [ICRA]A+ (Stable)
Total	100.00	100.00	

Material Event

Infibeam Avenues Limited (IAL) has announced its quarterly results for Q2FY2019 on November 14, 2018. The company, on a standalone basis, reported operating income of Rs. 134.8 crore with operating profit of Rs. 9.75 crore and net loss of Rs. 4.5 crore in Q2FY2019 against operating income of Rs. 73.7 crore with operating profit of Rs. 15.0 crore and net profit of Rs. 1.1 crore in Q2FY2018. The company has not reported consolidated financials because of inability to prepare financials within the prescribed timelines for recently acquired subsidiaries. The company has provided estimates of key indicators for its subsidiaries i.e. revenues of Rs. 324 crore and EBITDA of Rs. 97 crore for H1FY2019.

Impact of the Material Event

ICRA has downgraded the long-term rating to [ICRA]A (pronounced ICRA A) from [ICRA]A+ (pronounced as ICRA A plus) on the Rs. 100.00-crore¹ fund-based facilities of IAL. The outlook on the long-term rating has been revised to 'Negative' from 'Stable'.

On a y-o-y basis, on a standalone basis, though the operating income registered a growth of 83% in Q2FY2019, the operating profit margin declined to 7% vis-a-vis 20% in Q2FY2018 on the back of subdued performance in certain business segments. The net margin was also significantly affected due to the lower operating margins and few exceptional items and stood at -3% in Q2FY2019 vis-a-vis 1% in Q2FY2018.

The previous detailed rating rationale is available on the following link: [Click here](#)

Rationale

The rating downgrade follows the weaker than expected scaling up of profitability from new businesses and continuing losses in key segments resulting in weaker than anticipated overall performance of the company. Consequently, the cash accruals for the year are expected to also remain much lower than expectations and thereby result in moderation in liquidity cushion, though it would remain adequate. Further, the rating also factors in the reduced financial flexibility of the company following the drastic fall in share price of the company. The rating continues to factor in the high competitive intensity, particularly in the Product segment, although increased focus on the Services segment mitigates the risk to some extent. Further, the operations remain vulnerable to changing consumer trends in e-commerce space that could disrupt growth momentum in the future.

However, the rating continues to factor in the extensive experience of the management in the e-commerce and IT-Service industry spanning about two decades as well as the advantages accruing to the company being an integrated e-commerce service provider which includes the 'infibeam.com' e-retail business, the 'BuildaBazaar' online marketplace solutions and payment gateway services (CCAvenues). Furthermore, the recent diversification undertaken by way of

¹ 100 lakh = 1 crore = 10 million

expansion of offerings under the 'Services' segment by securing a contract to develop, operate and maintain the Government e Marketing (GeM) platform as well as launch of '.ooo' domain is expected to help diversify the revenue profile of the company. The rating also factors in the comfortable capital structure with gearing of 0.03 times as on March 31, 2018.

Outlook: Negative

The 'Negative' outlook factors in the possibility of significantly lower than expected performance in terms of profitability and cash flows in subsequent quarters. The outlook may be revised to Stable if the company achieves high growth momentum from its existing and new verticals within its services segment along with sustainable improvement in profitability. The ratings may be downgraded if the profitability declines further resulting in lower than estimated cash accruals or any large debt funded expansion/acquisition undertaken in the near to medium term that could potentially weaken the financial risk profile.

Key rating drivers

Credit strengths

Extensive experience of the promoters and qualified management- Infibeam was founded by Mr. Vishal Mehta, a Cornell and MIT Sloan alumnus. After working for leading technology companies in the US for five years, Mr. Vishal Mehta returned to India in 2007 and started Infibeam. Mr. Vishal Mehta and the members of the management have an experience of over 2 decades in the e-commerce business. Infibeam operates with about 1000 employees spread across several locations in India, including personnel working under the recently merged payment gateway service provider-CCAvenues.

Integrated e-commerce service provider with diversified revenue streams- Infibeam is an integrated e-commerce player, comprising of Infibeam.com e-retail site (B2C), the 'BuildaBazaar' e-commerce marketplace (B2B), payment gateway services (CCAvenues), as well as '.ooo' domain and developing and operating the Government e Marketing (GeM) platform. While the revenues from products at 'infibeam.com' dominated the revenue profile till FY2015 with ~77% contribution, the same came down to ~35% in FY2018 with scaling up of the 'BuildaBazaar' segment as well as addition of the payment service revenue. Going forward, scaling up of the GeM platform related revenue, monetization of '.ooo' domain and revenue from Bharat Bill Pay Services, advertisement etc. is expected to further diversify the revenue profile.

Services segment driving revenue growth and profitability- The services segment that houses the 'BuildaBazaar' services, payment gateway services, Government e Marketing (GEM), Bharat Bill Pay Services and the '.ooo' domain witnessed healthy growth in revenue over FY2015-FY2018. Revenue from the Services segment has grown from Rs. 67 crore in FY2015 to Rs. 539 crore in FY2018, following the merger with CCAvenues during the year. Accordingly, the contribution of the service segment to total revenue has increased from ~36% in FY2017 to ~64% in FY2018. Going forward, comparatively new segments like GeM, payment gateway services and '.OOO' segments are expected to gain traction and drive overall growth for Infibeam.

Strong association with established brands- Infibeam has set up online storefronts for several established brands including Amul, Adani Wilmar Limited (Fortune), Panasonic India Private Limited, Crossword Bookstores Limited, Gulf Oil Lubricants India Limited, Hidesign India Private Limited, Axiom Telecom LLC, Saudi Telecom Company, Jumbo Electronics and Mumbai International Airport Private Limited among others. Recently, it has also partnered with Network18 Group to launch Moneycontrol.ooo in Hindi.

Strategic merger with CCAvenue; a market leader in the payment gateway segment- In order to expand its footprint and provide a wider range of integrated offerings, Infibeam acquired ~11.35% share in CCAvenues (a leading payment gateway service provider in India) for Rs. 210 crore in FY2017 before agreeing to merge with it in FY2018 at a valuation of ~Rs. 2000 crore. During the current fiscal, H1FY2019, operating income has witnessed a healthy growth driven partly by

healthy growth in the revenues from CCAvenues operations. Total value of transactions processed by CCAvenues has grown at a healthy pace over the years with the same increasing from Rs. 4100 crore in FY2015 to Rs. 21550 crore in FY2018 which has further grown to Rs. 23,255 crore during H1FY2019. CCAvenues has more than ~1 lakh merchants with the largest market share among payment aggregators in India with a wide range of payment options including 7 Credit Cards, 53+ Net Banking, 98+ Debit Cards, 7 ATM Cards, 48 Bank's IMPS, 16 Prepaid Instruments and 12 Bank EMI options.

Asset light and scalable business segments- Infibeam currently uses technology to support a diverse range of products and services and provides complex and customizable e-commerce solutions on a scalable platform capable of implementing large transaction volumes with minimal downtime. The technology enables the company to offer services across multiple media, channels and customer interfaces including digital downloading and streaming services, and providing application framework solutions for supply chain and inventory management. The hosting and technology platform incorporates mobile applications, digital product catalogue, content management, promotions handling, access to payment gateways, as well as inventory and logistics management, and is capable of being integrated into the customer's IT infrastructure and third party configurable software.

Comfortable capital structure - The company had an outstanding debt of Rs. 67 crore as on March 31, 2018, hence, the gearing continues to remain comfortable at 0.03 times. Further, the debt level has reduced to Rs. 40 crore as on September 30, 2018. Interest coverage remained strong at 27 times in FY2018 while NCA/Total Debt stood at 231% and are likely to continue to remain strong going forward with no major debt capex planned in the near to medium term.

Credit weaknesses

Weaker than expected performance in current fiscal along with weakened financial flexibility post erosion in market capitalisation - The company, on a standalone basis, reported operating profit of Rs. 9.75 crore and net loss of Rs. 4.5 crore in Q2FY2019 against operating profit of Rs. 15.0 crore and net profit of Rs. 1.1 crore in Q2FY2018. The estimated revenue for subsidiaries was Rs. 324 crore and EBITDA was Rs. 97 crore for H1FY2019, hence, the overall performance of the company remained significantly lower than expected levels. The subdued performance is because of scaling up of new businesses and profitability from the same remained much lower than estimates. Further, continuing losses in key segments, resulted in moderation in overall performance of the company. On September 28, 2018, the company's share price plummeted by about 70% resulting in significant erosion in its market capitalisation from Rs. ~13,500 crore to Rs. ~4,000 crore in a single day. Further, the company witnessed a loss in investor confidence indicated by exits of some fund houses as well as foreign institutional investors. This impacts the overall financial flexibility of the company.

Products division continues to remain loss making - 'Infibeam.com' is one of the leading multi-category e-retailers in India with more than 15 million SKUs of products across 40 product categories sold. The active user base has grown from 3.0 million as of March 31, 2012 to more than 8.2 million as of March 31, 2017. Additionally, Infibeam operates 12 logistics centers and 6 warehouses across several cities to support its e-commerce operations. While the asset light-low inventory model significantly saves operational cost, the product division has been reporting losses, though the losses gradually came down from ~9% in FY2015 to ~2% in FY2017 and were expected turn profitable in near to medium term, the operating loss was higher at ~4% during FY2018. Going forward, company's ability to improve the profitability of its products division remains critical from credit perspective.

Vulnerability to changing consumer trends in e-commerce- As operations grow in scale and complexity, Infibeam would need to continuously improve, upgrade, adapt and expand technology systems and infrastructure to offer its existing and prospective merchants and customers enhanced services, features and functionality ahead of rapidly evolving consumer demands, while maintaining the reliability and integrity of the systems and infrastructure in a cost-efficient and competitive manner. Inability to adapt to changing consumer needs and technological developments remains an inherent risk for the company.

Intense competition in the e-commerce business - Infibeam competes with a variety of e-commerce and e-retail platforms, as well as service providers who enable merchants to develop customized web pages. In addition to this, other e-retailers and traditional retailers, Infibeam also competes with a number of e-commerce platform providers for enterprise and SME clients that derive revenue from services including traditional technology solutions companies besides competing with other payment gateway service providers in India. There is always a risk of new entrants with better service offerings which can create disruptions in the market and impact the performance of Infibeam's business segments. However, being an integrated e-commerce player, offering a wide range of e-commerce solutions with a moderately diversified revenue mix provides certain degree of competitive advantages over other players.

Liquidity Position:

Though weaker performance has resulted in moderation in liquid cushion available to the company, it continues to remain adequate with access to cash and bank balances of ~Rs. 110 crore as on September 30, 2018. Further, with the cash accruals of Rs. 155 crore in FY2018 and with absence of plan to carry out major capex or acquisition by the company in near to medium term, the liquidity would remain adequate.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Infibeam Avenues Limited. As on March 31, 2018, the Company had 7 subsidiaries, 2 stepdown subsidiaries and 1 associate, that are enlisted in Annexure-2.

About the company:

Infibeam Avenues Limited (Infibeam) was established in 2007 by Mr. Vishal Mehta. Infibeam is an internet and e-commerce company headquartered in Gandhinagar, Gujarat and operates the following businesses –

Business segment	Verticals
Products	'Infibeam.com' : Infibeam operates 'Infibeam.com', one of India's leading multi-category e-retail website. Additionally, the company plans to expand its logistics solution by adding logistics centers across the country over the near to medium term.
Services	<p>BuildaBazaar (BaB)- It is an e-commerce marketplace, which provides cloud-based, modular and customizable digital solutions and other value added services to enable merchants to set up online storefronts.</p> <p>Payment Gateway: Infibeam merged with Avenues India in FY2018, under which it operates 'BillAvenue', an inter-operable digital bill payment platform.</p> <p>Government e Marketing (GEM)- Infibeam has been selected by the Government of India to design, develop, implement, operate and maintain the GeM platform that provides a transparent platform for the Central and State government to carry out procurement of goods and services.</p> <p>.OOO domain: Infibeam is the first Indian Internet Registry to launch a generic domain labelled, 'Dot triple O'. The company has received necessary clearances and license from The Internet Corporation for Assigned Names and Numbers (ICANN) and the same is also entered into Registry Registrar Agreement (RRA) with leading global domain Registrars for making available its '.OOO' domain to the customers globally.</p> <p>Additionally, the advertisement platform also remains a key potential opportunity for Infibeam that can be monetized in the future.</p>

Key Financial Indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	441.3	839.3
PAT (Rs. crore)	43.5	88.1
OPBDIT/ OI (%)	15.1%	18.4%
RoCE (%)	9.0%	7.2%
Total Debt/ TNW (times)	0.17	0.03
Total Debt/ OPBDIT (times)	2.04	0.43
Interest coverage (times)	15.63	26.90

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				November 2018	April 2018			
1 Fund Based-Term Loan	Long Term	100.00	100.00	[ICRA]A (Negative)	[ICRA]A+ (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	Term Loan (Proposed)	-	-	-	100.00	[ICRA]A(Negative)

Source: Infibeam Avenues Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NSI Infinium Global Private Limited	100%	Full Consolidation
Infinium India Limited	100%	Full Consolidation
Infibeam Digital Entertainment Private Limited	74%	Full Consolidation
Odigma Consultancy Private Limited	100%	Full Consolidation
Infibeam Logistics Private Limited	100%	Full Consolidation
Sine Qua Non Solutions Private Limited	100%	Full Consolidation
Avenues Infinite Private Limited	100%	Full Consolidation
DRC Systems Private Limited	51%	Full Consolidation
Infibeam Global EMEA FZ-LLC	100%	Full Consolidation
Avenues Payments Private Limited	24.74%	Equity Method

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