

September 27, 2019 ^{Revised}

Infibeam Avenues Limited: Rating revised to [ICRA]A- (Negative) from [ICRA]A (Negative); Rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Facilities	100.00	30.00	[ICRA]A- (Negative); downgraded from [ICRA]A (Negative)
Total	100.00	30.00	

*Instrument details are provided in Annexure-1

Rationale

The rating downgrade follows the moderation in operating profitability of Infibeam Avenues Ltd (Infibeam) to 15.2% in FY2019 from 18.7% in FY2018 despite divestment from loss making product business (infibeam.com) in Q3 FY2019. The moderation in profitability is attributable to intense competition in the payment processing business, which is the largest profit contributing segment of the company. Further, the rating downgrade factors in the weaker than expected scaling up of profitability from new businesses as well as divestment in UAE-based subsidiaries, which contributed ~54% to the consolidated net profits of FY2019. Hence, in the current fiscal, the scale of operations, operating profits and revenue diversification are expected to remain lower. Moreover, the rating continues to factor in the modest return indicators of the company as reflected by RoCE (return on capital employed) of 6.1% for FY2019 as well as the reduced financial flexibility of the company following the drastic fall in the market capitalisation of the company. ICRA notes that the operations remain vulnerable to changing technologies, competition and exposure to risks related to data security that could impact the business risk profile of the company.

However, the rating continues to factor in the extensive experience of the management in the e-commerce and IT service industries for about two decades as well as the advantages accruing to the company as an integrated e-commerce service provider, which includes the payment gateway services (CCAvenues) and service platforms (BillAvenue, Revenue and GeM). The rating also factors in the asset-light scalable business model resulting in comfortable capital structure with gearing of 0.01 time as on March 31, 2019 as well as the strong liquidity profile with access to surplus cash of ~Rs. 100 crore as on March 31, 2019.

The Negative outlook factors in the possibility of lower than expected performance in terms of operating profits and cash flows in the current fiscal followed by continuing competitive pressures in the payments processing business and divestment in subsidiaries contributing ~54% to its consolidated profits in FY2019.

Key rating drivers and their description

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. Mehta returned to India in 2007 and started Infibeam. Mr. Mehta and his management team have an experience of over two decades in the e-commerce business. Infibeam's operations are spread across India as well as the UAE, including personnel working under the merged payment gateway service provider, CCAvenues.

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-FY2019. Revenue from the services segment has grown to Rs. 956 crore in FY2019 from Rs. 67 crore in FY2015, following significant improvement in volume of payment processed to Rs. 49,550 crore in FY2019 from Rs. 21,550 crore in FY2018. Further, Infibeam has divested its stake in its product business subsidiary during FY2019. Hence, going forward, the entire revenue would consist of services revenue.

Integrated e-commerce service provider - Infibeam is an integrated e-commerce player with payment gateway services (CCAvenues), '.ooo' domain and various operating platforms such as bill processing (BillAvenue), hospitality solution (ResAvenue) and the Government eMarketing (GeM) platform. Infibeam has been able to scale up its business across the service categories, however, contribution from payment processing segment remains high (~46% in FY2019). Going forward, with divestment in product business and the UAE-based subsidiaries, contribution from revenue concentration from payment business is expected to increase.

Asset light and scalable business segments - Infibeam currently uses technology to support a diverse range of products and services and provides complex and customisable 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. 40 crore as on March 31, 2019, hence, the gearing continues to remain comfortable at 0.01 time. Interest coverage remained strong at 25.0 times in FY2019, while NCA/Total Debt stood at 522% and is likely to continue to remain strong with no major debt capex planned in the near to medium term.

Credit challenges

Moderation in profitability in FY2019 along with modest return indicators – Despite divestment from loss making product business in Q3 FY2019, the operating profitability of the company reduced to 15.2% in FY2019 from 18.7% in FY2018 due to intense competition faced by the company in the payment processing segment. The payment processing business contributes ~47% of revenue and ~33% of net profits for FY2019. Though the operating profitability improved in Q1 FY2020 to ~20%, the overall operating profits and cash accruals for FY2020 would remain lower with divestment of product and UAE-based subsidiaries. While the asset light model significantly saves operational cost, the moderation in profitability, the return indicators remained modest as reflected by RoCE of 6.1% for FY2019 against 7.5% in FY2018. Going forward, the company's ability to improve the operating profits and return indicators remains critical from a credit perspective.

Weaker than expected scaling up of new businesses along with weakened financial flexibility post erosion in market capitalisation – Infibeam is an integrated e-commerce service provider offering various services. However, apart from payment processing segment, other service divisions such as GeM, BillAvenue, ResAvenue, logistic services, etc, have not been able to scale up in terms of profitability, which has also impacted the overall profitability of Infibeam. Further, 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. As on September 20, 2019, the market capitalisation was ~Rs. 2,670 crore and has remained at similar levels in the last six months. This has impacted the overall financial flexibility of the company and its ability to grow, since the company has been regularly carrying out acquisitions and divestments through share swap deals.

Vulnerability to changing technologies and consumer trends in e-commerce services - 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 remain an inherent risk for the company.

Intense competition in the payment processing business - Infibeam competes with payment processing gateways such as Billdesk and PayU payments along with a variety of service platforms. Though CCAvenue is the third largest player in payment processing industry, other players have funding support from venture capitals, private equities and international technology companies enabling them to burn cash for client acquisition and gaining market share. This results in pricing pressure for Infibeam, impacting its profitability. Further, 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.

Liquidity position: Strong

Though weaker performance has resulted in moderation in liquid cushion available to the company, it continues to remain strong with access to unencumbered cash and bank balances of ~Rs. 100 crore as on March 31, 2019. Further, with the cash accruals of Rs. 211 crore in FY2019 and annual repayment obligation of Rs. 9 crore along with absence of major capex or acquisition plan in near to medium term, the liquidity would remain strong.

Rating sensitivities

Positive triggers: ICRA is unlikely to upgrade the rating in the near term given the Negative outlook on the long-term rating. 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.

Negative triggers: Negative pressure on Infibeam's rating could arise if the operating profitability drops below 12.5% resulting in lower than estimated cash accruals or further decline in RoCE below 4% or any large debt-funded expansion/acquisition undertaken in the near to medium term that could potentially weaken the financial risk profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of Infibeam Avenues Limited. As on March 31, 2019, the company had seven subsidiaries and five associates that are all enlisted in Annexure-2.

About the company

Infibeam Avenues Limited (Infibeam) was established in 2007 by Mr. Vishal Mehta, headquartered in GIFT City, Gandhinagar. Infibeam operates an online payment system with technology platform solutions across industry verticals. The company operates as a payment processor for online merchants, websites and commercial users for which it charges a fee on successful transactions. Infibeam's payment system, CCAvenue, provides nearly 250 unique payment options in India, processing payments across 27 international currencies that enables online and mobile payments for merchants. Infibeam also provides services of various platforms such as the Government e-Marketplace (GeM), Bharata Bill payment services (BillAvenue) and hospitality solution (ResAvenue), among others.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	839	1159
PAT (Rs. crore)	88	126
OPBDIT/ OI (%)	18.7%	15.2%
RoCE (%)	7.5%	6.1%
Total Debt/ TNW (times)	0.03	0.01
Total Debt/ OPBDIT (times)	0.43	0.23
Interest Coverage (times)	21.1	24.8
DSCR	31.1	13.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating 27-Sep-2019	FY2019 26-Nov-2018	FY2018 16-Apr-2018	FY2018	FY2017
1 Long-term Fund-based	Long Term	30.00	30.00	[ICRA]A- (Negative)	[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	FY2018	NA	FY2023	30.00	[ICRA]A-(Negative)

Source: Infibeam Avenues Ltd

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NSI Infinium Global Private Limited	95.00%	Full Consolidation (up to February 28, 2019)
NSI Infinium Global Private Limited	93.59%	Equity Method (from March 1, 2019)
Infinium India Limited	100.00%	Full Consolidation (up to January 23, 2019)
Infibeam Digital Entertainment Private Limited	74.00%	Full Consolidation
Odigma Consultancy Private Limited	100.00%	Full Consolidation
Infibeam Logistics Private Limited	100.00%	Full Consolidation
Sine Qua Non Solutions Private Limited	95.00%	Full Consolidation (up to February 28, 2019)
Sine Qua Non Solutions Private Limited	93.59%	Equity Method (from March 1, 2019)
Avenues Infinite Private Limited	100.00%	Full Consolidation
DRC Systems Private Limited	51.00%	Full Consolidation
Infibeam Global EMEA FZ-LLC (UAE)	100.00%	Full Consolidation (up to March 21, 2019)
Infibeam Global EMEA FZ-LLC (UAE)	100.00%	Equity Method (from March 22, 2019)
Rich Relevants Limited (UAE)	100.00%	Full Consolidation (up to March 21, 2019)
Rich Relevants Limited (UAE)	100.00%	Equity Method (from March 22, 2019)
Vavian International Limited (UAE)	100.00%	Full Consolidation (from July 1, 2018)
Avenues World FZ LLC (UAE)	100.00%	Full Consolidation (from July 1, 2018)
Avenues Payments Private Limited	22.69%	Equity Method
Instant Global Paytech Private Limited	48.00%	Equity Method (from January 3, 2019)

Source: Infibeam Avenues Ltd

Corrigendum

Document dated September 27, 2019 has been corrected with revision as detailed below –

- Relationship contact details updated.

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