November 27, 2020

Infibeam Avenues Limited: Rating reaffirmed; Rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Facilities	30.00	27.00	[ICRA]A- (Negative); reaffirmed
Total	**30.00**	**27.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors 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 Infibeam Avenues Limited (Infibeam) as an integrated e-commerce service provider, which includes the payment gateway services (CCAvenues) and service platforms (BillAvenue, ResAvenue and GeM). ICRA notes CCAvenue being one of the leading payment gateway processing platforms in India and expected geographic diversification through entry into newer markets. The rating also factors in the asset-light scalable business model resulting in a comfortable capital structure with gearing of 0.01 time as on March 31, 2020 as well as the adequate liquidity profile with access to surplus cash and limited repayment obligations.

The rating, however, remains constrained by the decline in scale of operations post divestment in product business resulting in increased revenue concentration from a single service, i.e., CCAvenue. Further, the rating factors in the intense competition in the payment processing business, which is the largest profit contributing segment of the company. The competition has impacted the per transaction contribution and, hence, despite increase in payment volume processing in FY2020 compared to FY2019, the revenue from the same has remained stable. Moreover, the rating continues to factor in the weaker than expected scaling up of other newer businesses, such as GeM, BillAvenue and ResAvenue, wherein the volumes have improved significantly lower than expectations with delayed payment track record. Hence, their contribution to profitability continued to remain limited. 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.

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.

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, the UAE and Saudi Arabia, including personnel working under the merged payment gateway service provider, CCAvenues.

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 solutions

(ResAvenue) and a Government eMarketing (GeM) platform. Infibeam has been able to scale up its business across the service categories, however, contribution from the payment processing segment remains high.

Healthy profitability driven by payment gateway services – Infibeam divested from its product business in FY2019. Hence, from FY2020 onwards, its revenue was generated by the service segment, which included payment processing revenue and platform service revenue. The volume of payment processed increased to Rs. 62,200 in FY2020 from Rs. 49,400 crore in FY2019. With divestment in a loss making product segment, the operating profitability improved to 23.7% in FY2020 from 15.2% in FY2019, with CCAvenue continuing to remain the largest profit generating service for the company.

Asset-light and scalable business segments - Infibeam currently uses technology to support a diverse range of products and services along with complex and customisable e-commerce solutions on a scalable platform capable of implementing large transaction volumes with minimal downtime. The technology enables Infibeam to offer services across multiple media, channels and customer interfaces including digital downloading and streaming services, as well as 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. It is also 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. 27 crore as on September 30, 2020, hence, the gearing continues to remain comfortable at 0.01 time. Interest coverage remained strong at 19.0 times in FY2020, while NCA/Total Debt stood at 501% and is likely to continue to remain strong with no major debt capex planned in the near to medium term.

Credit challenges

Decline in scale of operations with increased revenue concentration while returns remain modest – Following the divestment from the product business in FY2019 and the UAE-based subsidiaries, the scale of operations declined by 44% in FY2020. This resulted in increased revenue share from the payment business to ~73% in FY2020 from ~46% in FY2019. Though the operating profitability improved in FY2020 to ~23.7% from ~15.2% in FY2019, the return indicators remained modest as reflected by RoCE of 3.0% for FY2020 against 5.8% in FY2019. Going forward, the company's ability to scale-up, improve the operating profits and return indicators remains critical from a credit perspective.

Intense competition in payment processing business - Infibeam competes with payment processing gateways such as Billdesk and PayU along with a variety of service platforms. Though CCAvenue is the third largest player in the payment processing industry, other players have funding support from venture capital firms, private equity firms and international technology companies, enabling them to burn cash for client acquisition and gain 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.

Weaker than expected scaling up of new businesses along with moderate financial flexibility – Infibeam is an integrated e-commerce service provider offering various services. However, apart from the payment processing segment, other service divisions such as GeM, BillAvenue and ResAvenue, have not been able to scale up as expected. Though the volume of transactions has improved gradually, improvement in terms of profitability is insignificant, which has also impacted the overall profitability of Infibeam. Further, in September 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. However, over the past six months, the market capitalisation has improved gradually and at present it is ~Rs. 5,500 crore, though it continues to remain significantly lower than its previous high levels. Further, the company witnessed a loss in investor confidence indicated by exits of some fund houses as well as foreign institutional investors. 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 remains an inherent risk for the company.

Liquidity position: Adequate

The liquidity position of the company remains adequate with limited annual repayment obligations of Rs. 9 crore against which the company had more than Rs. 140 crore of surplus cash and bank balance as on September 30, 2020. Further, the free cash flow also remained positive for the company in FY2020, sufficient to meet the repayment obligations. However, the company continues to explore various acquisition and investment opportunities in the evolving and dynamic e-commerce space, for which it continues to maintain a surplus cash position.

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 there is significant decline in operating revenue and profitability or any major debt-funded capex plan or additional sizeable debt drawn for existing or new business plans.

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, 2020, the company had seven subsidiaries and six 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 solutions (ResAvenue), among others.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	1159	648
PAT (Rs. crore)	126	108
OPBDIT/ OI (%)	15.2%	23.7%
RoCE (%)	5.8%	3.0%
Total Debt/ TNW (times)	0.01	0.01
Total Debt/ OPBDIT (times)	0.23	0.17
Interest Coverage (times)	23.6	19.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: Infibeam deferred its scheduled installment payment obligations falling due in the March–May 2020 period, pertaining to its secured term loan facilities, as it has sought a moratorium on installment payments from its lenders as part of the 'Covid-19 - Regulatory Package' announced by the Reserve Bank of India on March 27, 2020.

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating	FY2020		FY2019		FY2018
					27-Nov-20	27-Sep-2019	26-Nov-2018	16-May-2018	16-Apr-2018	-
1	Long-term Fund-based	Long Term	27.00	27.00	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[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	27.00	[ICRA]A-(Negative)

Source: Infibeam Avenues Ltd

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
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	93.59%	Equity Method
Avenues Infinite Private Limited	100.00%	Full Consolidation
DRC Systems India Limited	51.00%	Full Consolidation
Infibeam Global EMEA FZ-LLC (UAE)	49.00%	Equity Method
Rich Relevants Limited (UAE)	49.00%	Equity Method
Vavian International Limited (UAE)	100.00%	Full Consolidation
Avenues World FZ LLC (UAE)	100.00%	Full Consolidation
Avenues Payments Private Limited	22.69%	Equity Method
Instant Global Paytech Private Limited	48.00%	Equity Method
NSI Infinium Global Limited	48.00%	Equity Method

Source: Infibeam Avenues Ltd

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About ICRA Limited:

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