

August 09, 2019

Basix Sub-k iTransactions Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previously rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Fund-based CC limits	8.00	8.00	[ICRA]BB(Stable); Reaffirmed
Total	8.00	8.00	

* Instrument details provided in Annexure-1

Rationale

The rating takes into account Basix Sub-k iTransactions Limited's improved capitalisation profile post a capital infusion of Rs. 22 crore in FY2019 from its investors – Accion International, Nordic Microfinance Initiative (NMI), and Michael & Susan Dell Foundation (MSDF). Following the capital infusion, the net worth in relation to the risk-bearing portfolio was steady at 12.59% on a growing risk-bearing portfolio as on March 31, 2019. The capital infusion will support Basix's first loss default guarantee (FLDG) requirements to maintain an adequate loss-absorption cushion against losses on its risk-bearing portfolio, which was around Rs. 568 crore as on March 31, 2019 (Rs. 349 crore as on March 31, 2018). This will also enable the company to grow as per its business plans. Basix had a non-risk bearing portfolio amounting to Rs. 477 crore as on March 31, 2019 (Rs. 358 crore as on March 31, 2018), against which it does not have any risk sharing arrangements. The asset quality remained good with 90+ overdues in relation to assets under management (AUM) of 0.44% as on March 31, 2019 compared to 0.04% as on March 31, 2018. Being a business correspondent (BC), the company's loss was limited to the FLDG kept with the BC partners. The rating also factors in the experienced promoters and management team, good loan origination, collection and monitoring systems and adequate internal audit systems.

The rating is constrained by Basix's dependence on two BC partners for business and its moderate profitability indicators. While the portfolio has diversified geographically in 13 states, Maharashtra formed nearly 47% of the managed portfolio as on March 31, 2019 (~50% as on March 31, 2018). ICRA notes that the company is in advanced stages of tie-ups with new BC partners. The extent of the business from the same and the ability to expand the base of the BC partners will be important from a diversification perspective. The rating is constrained by the weak profitability profile resulting from the higher operating expenses, which are expected to moderate going forward. Basix has a comfortable liquidity profile with adequate cash and liquid balances and no debt on its books against which it has debt servicing obligations.

ICRA notes that Basix plans to grow its managed portfolio and risk-bearing portfolio by nearly 75% by March 2020. Going forward, the company's ability to scale up its operations by expanding the branch network while maintaining good asset quality and capitalisation indicators will be important from a credit perspective.

Outlook: Stable

ICRA believes that Basix will benefit from its improved capitalisation profile, the experience of its management, and its good systems and processes. The outlook may be revised to Positive if the company is able to profitably grow its business volumes while maintaining the asset quality indicators and prudent capitalisation profile. The outlook may be revised to Negative if the capitalisation profile weakens and there is limited support for the FLDG requirements or there is a significant deterioration in the company's financial profile.

Key rating drivers

Credit strengths

Adequate capitalisation profile to absorb credit losses – The capitalisation profile is adequate with an infusion of Rs. 22 crore in the form of CCPS, by investors, strengthening the net worth to Rs. 71.52 crore as on March 31, 2019. Accion and NMI infused Rs. 7.50 crore each and MSDF infused Rs. 7.00 crore in FY2019. These proceeds are likely to be used to support the FLDG requirements and future growth prospects. The capitalisation profile is comfortable with respect to the current scale of operations and provides a cushion for portfolio expansion. However, the same will remain monitorable as Basix scales up its risk-bearing portfolio.

Experience of promoters and management team in microfinance sector – Incorporated in 2010, the company's objective is to provide easy access to credit in rural areas. Basix, which lends through the BC route, is managed by professionals with experience in the microfinance industry. The promoters and senior management are adequately experienced in the micro lending and BFSI domain to manage the company's operations.

Diverse product mix – Basix has a diverse product mix under its managed book. The full-service model (BC portfolio or credit portfolio), which is a risk-bearing portfolio, is backed by an FLDG and mainly comprises loans under the joint liability group (JLG) model. This portfolio formed nearly 54% of the managed portfolio as on March 31, 2019 (similar share as on March 31, 2018). Under the reference model, where Basix is responsible only for originations and collections, it offers basic banking services and payment and distribution services (remittance, digital payment, etc). This portfolio formed remaining 46% of the managed portfolio as on March 31, 2019.

Credit challenges

Moderate scale and geographically concentrated operations – While the geographical concentration of the managed advances in Maharashtra has declined, it still accounted for nearly 47% as on March 31, 2019 (down from nearly 50% as on March 31, 2018), which may expose the portfolio to geographical and political risks. ICRA notes that the overall exposure on the BC portfolio is limited to the FLDG amount. Moreover, Basix has entered Odisha and Tripura and expanded its portfolio in other states to reduce the existing geographical concentration of its BC portfolio.

Moderate though improving profitability profile – Basix's profitability profile improved but was low as it reported profit after tax/managed advances of 0.55% and return on average net worth of 8.98% in FY2019 (0.08% and 1.83%, respectively, in FY2018). The increase in income from the credit as well as non-credit portfolios was offset by an increase in the operating expenses following the expansion of the non-credit operations. The company's ability to improve profitability for the credit and non-credit operations and contain costs will have a bearing on its profitability profile.

Ability to recruit, train and retain talent while scaling up operations will be critical – Given the current scale of operations, Basix has recruited people with adequate domain experience. While the headcount and experience are sufficient for the current scale of operations, the recruitment and training of people will be critical for stability and process refinement as the operations expand.

Ability to manage political and communal risks and to manage marginal borrower profile – Unsecured lending to the marginal borrower profile, and the political and operational risks associated with microlending may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations, and thus its financial position. However, a geographically diversified portfolio would mitigate these risks to some extent as these issues are largely region specific so far. The company’s ability to onboard borrowers with good credit history, recruit and retain employees and maintain geographical diversity would be key for managing high growth rates.

Liquidity position

As on June 30, 2019, Basix did not have any debt on its books against which it had to make repayments to the lenders. However, it maintained liquidity of around Rs. 45 crore in the form of cash and liquid balances. The collection of advances is for the BC partners and the same have been more than 98% in all the geographies where the company operates. Basix maintains an FLDG in the form of encumbered balances (usually a fixed deposit) as per the terms agreed upon with the BC partner.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group support	NA
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Basix Sub-k iTransactions Limited, incorporated in August 2010, is promoted by Bhartiya Samruddhi Investments and Consulting Services Ltd (BASICS) and aims to support financial inclusion through a full portfolio of services that include basic banking services, savings, NREGA and other government payments, money transfers, utility payments, and remittances through a network of basic convenience outlets (BCOs) operated by the company’s agents. The company is an authorised BC of RBL Bank for lending under the JLG model, and for State Bank of India, Reliance Commercial Finance Limited (RCFL) and United Bank of India for MSME lending.

As on March 31, 2019, the company operated through a network of 270 branches across 111 districts in 13 states and served about 4.40 lakh active customers. Basix reported a profit after tax (PAT) of Rs. 5.19 crore in FY2019 on risk and non-risk bearing portfolios of Rs. 568 crore and Rs. 477 crore, respectively, as on March 31, 2019 against PAT of Rs. 0.49 crore in FY2018 on risk and non-risk bearing portfolios of Rs. 349 crore and Rs. 358 crore, respectively, as on March 31, 2018.

Key financial indicators (audited)

	FY2017	FY2018	FY2019
Total income	43.76	50.60	89.29
Operating income	43.29	49.62	89.21
Operating expense	39.93	45.31	78.23
Profit before tax	2.05	0.48	5.28
Profit after tax	2.33	0.49	5.19
Net worth (Rs. crore)	9.53	43.98	71.52
Risk bearing portfolio	228	349	568
Non-risk bearing portfolio	207	358	477
Net operating income/AMA	9.42%	8.33%	9.45%
Operating expenses/AMA	8.60%	7.46%	8.40%
Return on managed assets (%)	0.50%	0.08%	0.55%
Return on average net worth (%)	27.85%	1.83%*	8.98%
Net worth/risk-bearing portfolio (%)	4.18%	12.60%	12.59%

Source: ICRA research; Amounts in Rs. crore, all ratios are as per ICRA calculations

PAT: Profit after Tax; NIM: Net Interest Margin; AMA: Average Managed Assets;

ROMA: Return on Managed Assets; ROE: Return on Equity

* Declined post capital infusion in the form of CCPS

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating		Chronology of Rating History for the past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2020 Aug 2019	FY2019 June 2018	FY2018 Sept 2017	FY2017 Aug 2017	FY2017 Dec 2016	FY2017 May 2016
CC facility	Long Term	8.00	0.00*	[ICRA]BB (stable)	[ICRA]BB (stable)	[ICRA]BB- @	[ICRA]BB- @	[ICRA]BB- @	[ICRA]BB- (stable)
Total		8.00	0.00						

Source: ICRA; @ signifies rating on watch with negative implications

*outstanding as on March 31, 2019

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 sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
N/A	Fund based – CC facility	-	-	-	8.00	[ICRA]BB(stable)
Total					8.00	

Source: Company data

ANALYST CONTACTS

Karthik Srinivasan

+91 22 6114 3444

karthiks@icraindia.com

Supreeta Nijjar

+91 124 4545 324

supreetan@icraindia.com

Rajat Mehta

+91 124 4545 377

rajat.mehta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents