

November 18, 2022^(Revised)

Bhanix Finance and Investment Limited: [ICRA]BBB (Stable)/PP-MLD [ICRA]BBB (Stable)/[ICRA]A3+ assigned; rating reaffirmed for existing limit

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	-	50.00	[ICRA]A3+; assigned
Long-term fund based	-	400.00	[ICRA]BBB (Stable); assigned
Market linked debenture long term	-	100.00	PP-MLD [ICRA]BBB (Stable); assigned
Non-convertible debentures	-	450.00	[ICRA]BBB (Stable); assigned
Non-convertible debentures	25.00	25.00	[ICRA]BBB (Stable); reaffirmed
Total	25.00	1,025.00	

*Instrument details are provided in Annexure I

Rationale

To arrive at the ratings, ICRA has taken a consolidated view of the credit profiles of Bhanix Finance and Investment Limited (BFIL) and its holding company, Aeries Financial Technologies Private Limited (AFTPL), given their business linkages, common management and operational synergies. BFIL provides short-term unsecured personal loans to salaried individuals through the technology platform, CASHe, with its competence reflected in the low turnaround time and the fully digitised process. Singapore-based TSLC Pte Ltd. (TSLC) holds a 51% stake in AFTPL and has licensed the CASHe mobile application to AFTPL for perpetual and exclusive use in India.

The ratings factor in BFIL's adequate capitalisation for the current scale of operations with a consolidated net worth of Rs. 322 crore and a gearing of 2.3 times as on September 30, 2022 (1.5 times as on March 31, 2022). To continue supporting the loan book growth, the company received an equity infusion of Rs. 142 crore in FY2022 and plans a further infusion in FY2023 to support the leverage. Its profitability is supported by higher lending yields and net interest margins (NIMs), which remained adequate to cover the operating expenses and credit costs. However, given the aggressive growth plans, BFIL would require additional capital over the next 2-3 years. The ratings also factor in BFIL's granular retail portfolio, comprising small-ticket loans to salaried individuals and shorter-tenor loans, supporting the liquidity profile.

The ratings are, however, constrained by the inherent riskiness in BFIL's portfolio due to the unsecured nature of the loans and the moderate borrower profile. Therefore, the asset quality is highly vulnerable to economic shocks or any other disruptions. Further, the company's track record is limited as the business was scaled up over the last two years. Hence, the asset quality indicators are yet to be tested across economic cycles as the loan book grows. BFIL's ability to contain its credit costs and maintain the overall profitability, while scaling up the loan book amid high competition, remains the key rating monitorable.

Key rating drivers and their description

Credit strengths

Adequate capitalisation for current scale of operations – BFIL's capitalisation profile is adequate for the current scale of operations with a consolidated net worth of Rs. 322 crore and a gearing of 2.3 times as of September 30, 2022. The gearing increased from 1.5 times as of March 31, 2022 with the increase in the scale of operations. Over the last five years till FY2022, BFIL has received equity of Rs. 260 crore from AFTPL with the last equity infusion of Rs. 142 crore in FY2022. AFTPL has received equity funding from the promoters/promoter-owned entities. Further, it has reported a consolidated net profit over the last three years till FY2022 that has added to its capital buffer. ICRA expects another round of equity infusion at BFIL through AFTPL in FY2023 to support the growing operations.

Given the expectation of higher growth in the medium term, BFIL would continue to need equity infusions over the medium term to maintain prudent capitalisation levels. Also, maintaining prudent capitalisation will be one of the key mitigants against delinquencies and other credit risks associated with the business.

Profitability supported by higher yields – At the consolidated level, AFTPL reported a net profit during the last three years (FY2020-FY2022). With the improved scale of operations and the moderation in the credit costs, the return on average managed assets (RoMA) and return on equity (RoE) improved to 5.2% and 15.5%, respectively, in FY2022 from 1.2% and 3.4%, respectively, in FY2021 and 3.6% and 9.2%, respectively, in FY2020. The profitability was impacted in FY2021 due to the Covid-19 pandemic that affected the business growth and margins.

BFIL's healthy profitability was supported by the higher yields earned by the company. BFIL earns an average yield of around ~40-45% and NIM of ~22-25% on its lending book, which remains adequate to absorb the higher operating expenses and credit costs. BFIL's average yield stood at 40% in FY2022 while the NIM stood at ~25%. The operating expense (opex)/average total assets (ATA) ratio remained at 14% while credit costs stood at 8% in FY2022 with overall RoMA of 3.4% in FY2022. The profitability was, however, impacted in H1 FY2023 (RoMA of 1.6%) due to increased credit costs (14.9%) with the changes in the business environment and the reshuffling of the collection agencies.

ICRA expects AFTPL to report RoMA of 2.0-2.5% in FY2023. ICRA will continue to monitor the company's ability to maintain its profitability while scaling up the loan book amid intense competition.

Granular loan portfolio – BFIL's portfolio is granular, comprising small-ticket loans to salaried individuals with a ticket size in the range of Rs. 1,000 to Rs. 4 lakh. About 7% of the assets under management (AUM) comprised very small-ticket loans of less than Rs. 10,000 while 38% of the AUM comprised loans with a ticket size up to Rs. 50,000 as on June 30, 2022. The short tenure of the loans (3-18 months) also provides support to the liquidity profile.

Credit challenges

Limited track record – Although BFIL started operations in 2017, the loan book was scaled up over the last two years. The AUM (including off-book portfolio) grew 37% in FY2021 and 120% in FY2022 to reach Rs. 715 crore as on March 31, 2022. It increased further to Rs. 975 crore as on September 30, 2022. As the loan tenor remains short, the portfolio experiences fast amortisation. Even after considering the loan disbursements, 68% of the total loan disbursements (Rs. 5,145 crore since inception) was done in the last 2-3 years. The company's track record seems limited because the asset quality indicators are yet to be tested across economic cycles as the business scales up.

Moderate borrower profile and asset quality – The inherent riskiness in BFIL's portfolio remains high due to the unsecured nature of the loans and the moderate borrower profile. BFIL's borrowers comprise the salaried individuals segment, a sizeable portion of which is new to credit or has a low credit score and is hence not serviced by banks. BFIL reported gross non-

performing advances (GNPAs) of 9.2% of AUM as on March 31, 2022 compared to 6.7% as on March 31, 2021 and 7.8% as on March 31, 2020. Credit costs, as a percentage of loan disbursements, increased to 4.1% in FY2021 due to the pandemic-induced stress, but declined to 3.2% in FY2022. Further, multiple headwinds like the evolving regulatory framework for digital lending and alterations in the collection framework mainly for collection agencies, resulted in a drop in the collection efficiency (excluding prepayments) to ~82-85% for Q1 FY2023 though the same improved to 87% in September 2022. Hence, the annualised credit cost increased to 5.3% of loan disbursements in H1 FY2023. ICRA will continue to monitor the company's ability to contain its credit costs and remain profitable while scaling up the loan book amid intense competition.

Liquidity position: Adequate

BFIL's liquidity position is adequate with no negative cumulative mismatches in the asset-liability management (ALM) statement as on September 30, 2022 owing to the short tenure of the loan book. The company's unencumbered cash and bank balance stood at Rs. 33 crore and unutilised sanctioned lines of Rs. 144 crore as of October 31, 2022. Also, the expected inflows from advances in the next 6 months stood at Rs. 560 crore compared to debt repayments of Rs. 457 crore during this period.

BFIL's borrowing is largely dominated by non-banks with a share of 49% of the total borrowings as on September 30, 2022, though the same declined from 67% as on March 31, 2021. The share of banks stood at 25% while debentures accounted for 24% of the total borrowings as on September 30, 2022. BFIL has increased its funding relationships to more than 30 lenders as on September 30, 2022 from 7 as on March 31, 2018.

Rating sensitivities

Positive factors – An increase in the scale of operations along with an improvement in the profitability indicators, while maintaining good asset quality and a prudent capitalisation structure on a sustained basis, could lead to a rating upgrade.

Negative factors – A decline in the scale of operations or a deterioration in the asset quality indicators, resulting in pressure on the profitability indicators, could lead to a rating downgrade. Pressure on the company's ratings could also arise if the managed gearing¹ exceeds 4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs) Rating Approach – Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated

About the company

Bhanix Finance and Investment Limited (BFIL) was incorporated in 1996 as a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). Aeries Financial Technologies Private Limited (AFTPL) acquired a 100% stake in BFIL in 2017. TSLC Pte Ltd. (TSLC), a Singapore-based company, had a 51% stake in AFTPL as on March 31, 2022, while the balance was held by other promoter-owned entities and other investors. TSLC was founded in 2016 by Mr. V. Raman Kumar and Mr. Deepak Saluja to drive financial inclusion through credit-led artificial intelligence/machine learning platforms. TSLC developed a digital lending platform called CASHe in 2017 and owns all the intellectual property and technology related to CASHe. TSLC has digital lending operations through different operating entities in India, Bangladesh and Dubai.

¹ Managed gearing = (Total debt + off-book assets)/Net worth

BFIL provides short-term unsecured personal loans to salaried individuals through CASHe. Its competence lies in the low turnaround time and the fully digitised loan process. BFIL focuses on new-to-credit borrowers and borrowers not getting loans from banks. TSLC has licensed the CASHe mobile application to AFTPL for perpetual and exclusive use in India. In turn, AFTPL has sublicensed the application to BFIL. The licence is irrevocable, exclusive, non-transferrable and perpetual in nature.

Key financial indicators (audited)

AFTPL (consolidated)	FY2020	FY2021	FY2022	H1 FY2023
Total income	133	106	247	237
Profit after tax	9	4	34	15
Net worth	127	130	307	322
Loan book (including off-book)	238	325	715	975
Total assets	308	410	843	1,165
Return on managed assets ²	3.6%	1.2%	5.2%	2.8%
Return on net worth	9.2%	3.4%	15.5%	9.7%
Gross NPA	7.8%	6.7%	9.2%	6.9%
Net NPA	0.0%	0.0%	1.6%	2.3%
Gearing (times)	1.1	1.7	1.5	2.3
Managed gearing (times)	1.1	1.7	1.7	2.5
Net NPA / Net worth	0.0%	0.0%	3.1%	6.2%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

BFIL (standalone)	FY2020	FY2021	FY2022	H1 FY2023
Total income	123	98	233	223
Profit after tax	9	9	22	8
Net worth	120	129	292	301
Loan book (including off-book)	238	325	715	975
Total assets	294	400	822	1,133
Return on managed assets	4.0%	2.6%	3.4%	1.6%
Return on net worth	10.2%	7.2%	10.4%	5.5%
Gross NPA	7.8%	6.7%	9.2%	6.9%
Net NPA	0.0%	0.0%	1.6%	2.3%
Gearing (times)	1.1	1.7	1.5	2.4
Managed gearing (times)	1.1	1.7	1.7	2.7
Net NPA / Net worth	0.0%	0.0%	3.3%	6.7%
CRAR	43.9%	33.9%	37.2%	26.6%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

² Managed assets is the sum of total assets and off-book assets

Rating history for past three years

Instrument	Type	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Nov 18, 2022	Oct 25, 2022			
1 Commercial paper	Short term	50.00	-	[ICRA]A3+	-	-	-	
2 Long-term fund based	Long term	400.00	-	[ICRA]BB B (Stable)	-	-	-	
3 Market linked debenture long term	Long term	100.00	-	PP-MLD [ICRA]BB B (Stable)	-	-	-	
4 Non-convertible debentures	Long term	450.00	-	[ICRA]BB B (Stable)	-	-	-	
5 Non-convertible debentures	Long term	25.00	-	[ICRA]BB B (Stable)	[ICRA]BB B (Stable)	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very Simple
Long-term fund based	Simple
Market linked debenture long term	Complex
Non-convertible debentures	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Yet to be placed	Market linked debenture long term	NA	NA	NA	100.00	PP-MLD [ICRA]BBB (Stable)
Yet to be placed	Non-convertible debentures	NA	NA	NA	450.00	[ICRA]BBB (Stable)
Yet to be placed	Non-convertible debentures	NA	NA	NA	25.00	[ICRA]BBB (Stable)
Yet to be placed	Commercial paper	NA	NA	NA	50.00	[ICRA]A3+
Not applicable	Long-term fund based	NA	NA	NA	400.00	[ICRA]BBB (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities for considered for consolidated analysis

Company Name	Ownership	Consolidation
Aeries Financial Technologies Private Limited	Holding company	Full consolidation
Bhanix Finance and Investment Limited	Subsidiary company	Full consolidation

Corrigendum

Document dated November 18, 2022, has been corrected with revisions as detailed below:

- The link for 'Rating Approach – Consolidation' is added to the Applicable rating methodologies of the Analytical approach section on Page No. 3 of the document.

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