

January 09, 2017

## Bharat Financial inclusion Limited

Instrument	Rated Amount (Rs. crore)	Rating Action
Long-Term Borrowing Programme	300	[ICRA]A+(Stable); reaffirmed
Short-Term Debt/Commercial Paper Programme	750 (Rs 300 crore interchangeable with long term borrowing programme)	[ICRA]A1+ reaffirmed

### Rating Action

ICRA has reaffirmed the rating of [ICRA]A+ (pronounced ICRA A plus) with a stable outlook for the Rs. 300 crore long-term borrowing programme of Bharat Financial inclusion Limited (BFIL). ICRA has also reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 750 crore short-term debt/commercial paper programme of BFIL. Of the aggregate short-term rated amount of Rs. 750 crore, Rs. 300 crore is interchangeable with the long-term borrowing programme (subject to the total borrowing under long-term and short-term not exceeding Rs. 750 crore).

### Rationale

The ratings factor in BFIL's established track record of operating in the microfinance segment; its market position as one of the largest MFIs (managed portfolio of Rs. 9,046 crore as on September 30, 2016); and its good capitalisation indicators (net worth / managed advances of 28% as on September 30, 2016). The ratings also take into account the company's geographically diversified portfolio (operations in 16 states with top 3 states accounting for 43% of the portfolio as on September 30, 2016), and its policy of maintaining exposure caps at state, district and branch levels (top 10 districts accounted for 15% of portfolio as on September 30, 2016). The ratings also factor in BFIL's experienced management team, its good risk management, internal audit and MIS systems which have enabled the company to report good asset quality indicators (30 + dpd of 0.2% as on September 30, 2016). The ratings continue to factor in BFIL's diversified funding mix and good profitability indicators. The long-term rating is however constrained by the risks associated with unsecured lending, political and operational risks arising out of cash handling, along with the challenges associated with a high pace of growth (y-o-y portfolio growth of 66% during FY2016) and high attrition rates. The company's dependence on wholesale funding sources and the limited diversity in its earnings are also credit challenges.

Following the recent demonetisation action by the Government of India, inadequate currency supply, political interference in some states, and disruption in borrower cash flows have led to a decline in BFIL's collection efficiencies (91.2% during November 11 – December 15, 2016 vis-a-vis over 99% in prior to demonetisation). Nevertheless, ICRA notes that BFIL's portfolio is geographically diversified with low exposure to politically affected districts, which should help contain the extent of delinquencies and write-offs. BFIL's liquidity position remains comfortable owing to a conservative liquidity policy, high cash balances and continued funding post demonetisation. The company's ability to maintain good asset quality and liquidity profile will be a key rating sensitivity going forward. In ICRA's view, the pace of replenishment of currency supply in the system, the medium to long term impact on the livelihood situation of the borrowers and the quality of customer engagement by the MFIs will be key determinants of asset quality of MFIs, including BFIL.

While access to credit bureaus and the regulatory ceiling on borrower indebtedness has reduced concerns on overleveraging and multiple lending in the sector, issues related to multiple identity proofs as well as gaps in information available with the bureaus (lack of data related to the SHG programme, non NBFC - MFIs, lending through business correspondent model) remain. Given the rising competition in this segment with various MFIs growing at a rapid pace as well as with new entrants especially through the Business Correspondent model, MFIs would need to carefully assess the debt repayment capacity of borrowers so as to limit the risk of overleveraging and the consequent threat to their portfolio credit quality. Nevertheless ICRA takes note of the efforts at an industry level to alleviate these concerns through standardization of KYC documents, digitization of SHG programme so as to assess the actual leveraging status of the borrower as well as the lower debt limit prescribed by MFIN.

### Key Rating Drivers

Credit Strengths

- Long track record of over 10 years of microfinance operations
- Experienced senior management team and good depth in second and third lines of management
- Strong loan origination, portfolio tracking and audit systems
- Strong capitalisation levels; incremental capital requirements low owing to moderate growth plans and healthy expected internal capital generation
- Comfortable liquidity position and financial flexibility; strong ability to raise funding from diverse sources

#### Credit Weaknesses

- High dependence on banking sector for borrowing requirements; ability to diversify funding profile by raising debt market instruments at competitive rates yet to be seen
- Ability to manage political and operational risks as well as the impact of demonetisation
- Recruiting, training and retaining manpower to support the growing scale of operations
- Lack of diversity in earnings

#### Description of key rating drivers highlighted above:

BFIL has a diverse funding mix with over 35 lenders in its overall resource profile currently. While also raised funds through debt market instruments, the share of these instruments remains low in the overall resource mix, and bank borrowings continued to account for around 64% of the company's funding as on September 30, 2016. With an improvement in the funding environment and the shift towards debt market instruments, the company's cost of funds reduced from 11.6% in FY2016 to 10.6% for H1FY2017.

BFIL's capitalisation remains comfortable (net worth / managed loan portfolio of 24% as on September 30, 2016), supported by a qualified institutional placement of Rs. 750 crore in September 2016 as well as good internal capital generation. Given the company's plans of growing at a CAGR of 30-40% over the next three years and an expected internal capital generation of 16-20% post dividend payout, the external capital requirements for the company are likely to be low in the medium term.

BFIL lends at the lowest interest rate currently among all NBFC-MFIs at 19.75%. Notwithstanding the low lending rates, its profitability indicators improved over the years (ROE of 30.4% in FY2016 and 39.2% in H1FY2017<sup>1</sup>), owing to a decline in operating expenses and cost of funding. However, the company's diversity of earnings remains low with the revenues being almost entirely dependent on JLG loans. Going forward, BFIL's ability to control its credit costs, especially in the wake of the recent event of demonetisation would be important to maintain its profitability indicators.

#### Links to applicable Criteria

<http://www.icra.in/Files/Articles/Rating%20Methodology%20NBFC%20April%202016.pdf>

#### About the Company

Bharat Financial Inclusion Limited is an NBFC-MFI catering to the financial needs of rural women from low income households through the joint liability group mechanism. It was incorporated as SKS Microfinance Pvt. Ltd. (SKS) in September 2003, under the Companies Act, 1956. SKS obtained the certificate of registration as an NBFC-ND, from the RBI in January 2005. In September 2005, the company acquired the business operations, assets and loan portfolio of Swayam Krishi Sangam (an NGO) that was engaged in microfinance activities since 1997. SKS was converted from a private limited company to a public limited company and obtained a fresh certificate of registration from RBI in June 2009 as an NBFC-ND. SKS was listed on NSE and BSE in August 2010 and received an NBFC-MFI licence from RBI in November 2013. SKS changed its name to Bharat Financial Inclusion Limited in June 2016.

BFIL reported a PAT of Rs. 370 crore on a managed asset base of Rs. 9,865 crore in FY2016 vis-a-vis a PAT of Rs. 187.7 crore on a managed asset base of Rs. 5,959 crore in FY2015. For H1FY2017, the company reported a PAT of Rs. 381.8 crore on a managed asset base of Rs. 11,391 crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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<sup>1</sup> There was a MAT credit recognised in FY2017, because of which PAT was higher than PBT leading to higher profitability in H1FY2017.

**Rating History for last three years:**
**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	November 2015	October 2014	September 2013
1	Long-term borrowing programme	Long term	300.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
2	Short-term debt / Commercial Paper programme	Short term	750.00 (Rs 300 crore interchangeable with long-term borrowing programme)	[ICRA]A1+	[ICRA]A1+	-	-

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Commercial Paper	21-Apr-2016	9.78%	21-Apr-2017	25.00	[ICRA]A1+
Commercial Paper	27-Jul-2016	9.80%	27-Jul-2017	100.00	[ICRA]A1+
Commercial Paper	26-Aug-2016	9.70%	25-Aug-2017	25.00	[ICRA]A1+
Commercial Paper	09-Aug-2016	9.50%	09-Aug-2017	50.00	[ICRA]A1+
Commercial Paper	08-Sep-2016	9.70%	08-Sep-2017	50.00	[ICRA]A1+
Commercial Paper	22-Sep-2016	9.70%	22-Sep-2017	100.00	[ICRA]A1+
Commercial Paper	17-Oct-2016	9.45%	17-Oct-2017	100.00	[ICRA]A1+
Commercial Paper	15-Nov-2016	9.25%	14-Nov-2017	25.00	[ICRA]A1+
Commercial Paper	08-Dec-2016	8.75%	07-Dec-2017	20.00	[ICRA]A1+

*Source: Bharat Financial Inclusion Limited*



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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.

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