Bhanix Finance and Investment Limited

March 29, 2024

Facilities/Instruments	Amount (₹crore)	Rating[1]	Rating Action
Long-term bank facilities	164.49	CARE BBB; Stable	Reaffirmed
Non-convertible debentures	46.75 (Reduced from 78.36)	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings derive strength from Bhanix Finance and Investment Limited's (BFIL) adequate capital base supported by periodical capital infusions from its investors through its parent entity, Aeries Financial Technologies Private Limited (AFTPL). This has resulted in a moderately leveraged capital structure, business potential of technology-led risk assessment model with the entire credit underwriting process being performed digitally, and minimum requirement of manual intervention.

Ratings however remain constrained due to its moderate asset quality metrics with higher credit costs (including write-offs), limited track record of business operations, still-evolving product profile, concentration in resource profile with higher cost of funding, and dependency on non-banking financial companies (NBFCs). Ratings also consider moderated profitability in FY23. Going forward, the company's continued ability to attract capital from promoters and investors, raising external funding at competitive rates, increase in operational scale, while improving asset quality, and collection efficiencies apart from its ability to generate profitability on a sustained basis at consolidated and standalone basis will remain critical parameters for its rating.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving profitability on a standalone and consolidated basis with ROTA of at least 4% on a continued basis.
- Improving asset quality metrics/ratios, including gross non-performing assets ratio (GNPA), write-offs, and collection efficiencies.
- Exhibiting stable growth with continuous scale-up in the loan portfolio.
- Significant mobilisation of equity capital for further growth in business.

Negative factors

- Inability to source funding from diversified sources.
- Adverse regulatory event/developments, impacting business risk profile significantly.
- Declining capital levels or deteriorating leverage with overall gearing (borrowings/tangible net worth) of more than 4x.
- Asset under management (AUM/Net worth) exceeding 6x on a consolidated levels.

Analytical approach: Standalone

CARE Ratings Limited (CARE Ratings) has taken a standalone view for assessing the financial position of BFIL. However, CARE Ratings has also factored in financial and technological support from its parent entity.

Outlook: Stable

The stable outlook reflects expectation of continued operational and technological support from its parent, AFTPL, and expectation of profitable operations at standalone and consolidated levels. The stable outlook also factors in maintenance of healthy business and financial parameters over the medium term.

Detailed description of key rating drivers

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Key strengths

Strategic importance and strong support from Group

AFTPL, the technology parent company, held 99.99% stake in BFIL as on March 31, 2023. BFIL received an infusion of ₹142 crore in FY22. Over the past few years, the company has been continuously receiving support from AFTPL, cumulatively aggregating to total capital infusions of ₹260.57 crore infused into BFIL till date. AFTPL's investors include TSLC Pte Ltd, Aark Singapore Pte. Ltd, Aeries Technology Products and Strategies Pvt. Ltd, AFT ESOP trust, and other investors. With infusions over the years, BFIL's capital adequacy ratio (CAR) remained comfortable at 22.93% as on March 31, 2023 (December 31, 2023: 19.66%) with gearing of 3.19x as on March 31, 2023, and tangible net worth (TNW) of ₹267.70 crore as on March 31, 2023. CARE Ratings expects AFTPL to continue providing support by access to need-based capital as required.

The group chairman, Raman Kumar, is the founder of Aeris Technology Group (ATG), a technology, business process management and consultancy services company which later transformed to a new age technology solution company. In 2016, Raman launched CASHe, a FinTech digital lending company, providing loans to salaried individuals. Yashoraj Tyagi (an alumni of UC Berkeley and BITS Pilani) has over nine years of experience. He earlier held the dual role of COO and CTO and recently taken over the position of the Chief Executive Officer (CEO) in October 2023. Gaurav Surana has over 18 years of experience in the industry and resumed the role of CFO of BFIL in June 2023. Joginder Rana has taken over the role of Vice Chairman and Managing Director for Aeries Financial Technologies bringing in over three decades of global and domestic experience in banking and ITES industry.

Ability to swiftly scale up with technology-led risk assessment model

BFIL has no branches, and the lending process is entirely digital through its mobile application, CASHe. The entire credit risk underwriting processes – origination, risk assessment and disbursement are digitally performed. Minimal manual intervention allows the company grow its loan portfolio at a faster pace with asset quality metrics being monitored by algorithms. Powered by its industry-first algorithm driven credit scoring platform, Social Loan Quotient (SLQ), Good Measure (GM), CASHe uses AI, Big Data, and Machine Learning technologies to quickly determine a user's credit worthiness by using multiple unique data points to arrive at a distinct credit profile. Technology provides a competitive edge over traditional banks in terms of time taken for loan processing. The company's sourcing of the company happens majorly (70%) from aggregators (~30 to 40 aggregators) such as google Google Pay, PayU, Paisa Bazaar, Bajaj Finserv, Buddy Loan, 15% through digital marketing and remaining 15% from referrals. Digital includes ads placed on Instagram, Facebook, LinkedIn, Google, SMS campaigns, referrals & and word of mouth publicity. For the channel partners, the company pays one-time acquisition cost of 4% to 4.5% on the loan amount.

CARE Ratings notes that while technology has demonstrated its capacity for growth, the ability of the self-learning algorithms to keep a check on quality of the loans being sourced is yet to be time tested across different economic cycles.

Key weaknesses

Limited Track Record

BFIL has around seven years of operations. While the shorter tenure of the loan portfolio results in adequate seasoning, the company's vintage of the company remains low. Subsequently, the quality of underwriting through different economic cycles and geographies is yet to be established.

Care Ratings observes that credit risk models based on data analytics and machine learning will continuously evolve both with time as well as and with growth in portfolio.

Moderate asset quality characterised by higher credit costs

GNPA ratio improved to 6.04% in FY23 as against 9.20% (based on 90+ DPD) in FY22. It further improved to 4.94% in 9MFY24. However, on a standalone basis, credit cost (%) (adjusted for off-book) increased drastically from 11.43% in FY22 to 19.58% in FY23 (9MFY24: 12.56%). The impact on credit cost is also due to migration from I-GAAP to IND-AS. CARE Ratings observes that while high credit cost is a key feature of companies operating in the digital unsecured lending/personal loan segment, which reflects relatively higher risk of unsecured lending business. As stated by the management, credit cost on a steady state basis would be between 5.5% to 6.5% of its disbursements.

In FY22, the management made changes in its collection process by introducing voice bots and reassessing collection agents to improve collections. The company has stages of pre-empt calling, BOT calling before and per the buckets, intensity of follow-ups increase. The company has no feet on street collections. Beyond 90+ DPD, the collections are outsourced, where physical visits may be done depending on the amount outstanding. The company has a write off policy of 180+ DPD.

CARE Ratings observes that while high credit cost is a key feature of companies operating in the digital unsecured lending/personal loan segment, it reflects relatively higher risk of unsecured lending business.

Moderation in profitability led by higher credit costs
BFIL's AUM grew by 75% y-o-y from ₹715 crore as on March 31, 2022, to ₹1255 crore as on March 31, 2023, which further increased to ₹1342 crore as on December 31, 2023. BFIL has been reporting continuous profits since FY20 both at consolidated and standalone levels. PAT of BFIL (on a standalone basis) declined 59% y-o-y from ₹19.93 crore. in FY22 to ₹8.19 crore in FY23. While during 9MFY24, PAT (I-GAAP) stood at ₹7.14 crore. Whereas PAT of AFTPL (on a consolidated basis) declined 7% y-o-y from ₹28.26 crore. in FY22 to ₹26.33 crore in FY23 (9MFY24: ₹26.84 crore.).
On a standalone basis (for BFIL), net income margin (NIM) (%) (adjusted for off-book) moderated from 35.38% in FY23 to 24.87% in 9MFY24, while opex (%) increased from 18.20% in FY23 to 21.12% in 9MFY24. Credit cost (%) increased drastically from 11.43% in FY22 to 19.58% in FY23 due to impact from migration from I-GAAP to IND-AS, however moderated to 12.56% in 9MFY24. Return on total assets (ROTA) declined from 3.36% in FY22 to 0.78% in FY23, which further declined to 0.65% in 9MFY24.
On a consolidated basis (for AFTPL), NIM (%) (on-book) increased from 28.19% in FY23 to 41.20% in 9MFY24, while opex (%) increased from 22.49% in FY23 to 26.75% in 9MFY24. Credit cost (%) increased drastically from 11.99% in FY22 to 20.73% in FY23, which moderated to 15.09% in 9MFY24. ROTA declined from 4.97% in FY22 to 2.70% in FY23 but showed slight improvement to 2.93% in 9MFY24.

Concentrated resource base with higher cost of funding
As on December 31, 2023, the resource profile is concentrated with term loans constituting of 65% of total outstanding borrowings, of which majorly (50.2%) loans from NBFCs, and loans from banks remained lower at 14.8%. The weighted average cost of borrowing as on December 31, 2023, stood at 14.40%. CARE Ratings observed that weighted average cost of incremental borrowing in three-months ended December 2023 stood at 15.10%.

Regulatory risk
The ratings also take note of the regulatory risk associated with entities operating in digital lending as the regulations are still evolving. The Reserve Bank of India (RBI) had come out with a circular on digital lending on September 02, 2022, leading to multiple operational changes in the fintech industry. RBI has also increased risk weights on unsecured consumer loans, including credit cards, by 25% for banks and NBFCs. With digital lending gaining momentum and size, and regulations in the industry also evolving, exposing the industry to regulatory risk, the extent of impact for fintech players varies depending on the business model followed by each of the entity.

Liquidity: Adequate
As on December 31, 2023, the company's ALM profile had no negative cumulative mismatches till year. As on December 31, 2023, the company had contractual debt repayments obligations of ₹642.61 crore up to one year, against which, the company had contractual inflow from advances of ₹863.60 crore. Above the said positive mismatch, the company maintains unencumbered liquidity to the tune of ₹23.12 crore. Liquidity remains supported by collections from its shorter tenure loan book and medium-term borrowings.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria
[Definition of Default]
[Factoring Linkages Parent Sub JV Group]
[Rating Outlook and Rating Watch]
[Financial Ratios - Financial Sector]
[Non Banking Financial Companies]

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

Incorporated in 1996, BFIL is registered as a NBFC with RBI.It was acquired by AFTPL in 2017 with a 99.99% stake, which remains as on December 31, 2023. BFIL provides short-term unsecured personal loans through its technology platform, CASHe. CASHe uses technology, data analytics, and proprietary algorithms to map young professionals based on Social Loan Quotient - their mobile, digital footprint, and social behaviour patterns to assess credit worthiness. All loans are disbursed through CASHe app, which are underwritten by BFIL. The lending model is entirely digital and BFIL has no branches. As, on December 29, 2023, AFTPL's stakeholders include Aeries Technology Group (ATG; 23.84%), TSLC Pte Ltd (51.13%) (a Singapore-based company operating in financial technology), AFT ESOP trust (7.91%), Aarx Singapore (2.99%) and other investors (14.12%).
TSLC Pte Ltd. (TSLC), a Singapore-based company, operating in financial technology owns the intellectual property for CASHe and has worldwide rights outside India to the application of its intellectual property for its lending and money transfer platform. TSLC has licensed CASHe mobile application to AFTPL for perpetual and exclusive use in India. AFTPL has sublicensed CASHe mobile application to BFIL with royalty to be paid at 5% of the revenue. The license is irrevocable, exclusive, non-transferrable, and perpetual in nature. As on December 31, 2023, founder/cofounder group of TSLC Pte. Ltd. holds 53.9% stake in TSLC Pte Ltd. Other shareholders of TSLC Pte. Ltd. include ARV Investment SPV RSC Ltd. (16.2%), Global Family Office/HNI Investor (14.4%), TSLC F&F Pte. Ltd. (12.8%), TSLC-SOP Pte Ltd. (1.5%) and Management/Partner/Advisors (1.1%).

Brief Financials (₹ crore) - BFIL	FY2022 (A) (IND-AS)	FY2023 (A) (IND-AS)	9MFY24 (UA) (I-GAAP)
Total Income	244.32	527.13	487.69
PAT	19.93	8.19	7.14
Total Assets*	735.86	1176.17	1159.46
Net NPA (based on 90+dpd) (%)	2.47	3.42	2.72
ROTA [adjusted for off book] (%)	3.36	0.78	0.65

A: Audited; UA: Unaudited. Note: These are latest available financial results.
*Net of intangible assets and deferred taxes

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of rated instruments/facilities is given in Annexure-3

Complexity level of instruments rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE08X507061	24-05-2022	14.99% p. a	31-05-2024	25.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE08X507095	30-06-2022	15.55% p. a	22-06-2024	7.12	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE08X507095	30-06-2022	15.55% p. a	22-06-2024	7.13	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE08X507103	08-07-2022	15.55% p. a	20-06-2024	7.50	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE08X507012	31-07-2021	15.55% p. a	20-06-2023	0.00	Withdrawn
Debentures-Non-Convertible Debentures	INE08X507087	10-06-2022	14.67% p. a	11-09-2023	0.00	Withdrawn
Debentures-Non-Convertible Debentures	INE08X507012	13-12-2022	15.55% p. a	31-12-2023	0.00	Withdrawn
Fund-based-Long Term	NA	-	-	28-07-2025	164.49	CARE BBB; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based-Long Term	LT	164.49	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Mar-23) 2)CARE BBB-; Stable (27-Jul-22)	1)CARE BBB-; Stable (17-Dec-21) 2)CARE BBB-; Stable (09-Aug-21)	1)CARE BBB-; Positive (18-Mar-21)
2	Debentures-Non Convertible Debentures	LT	46.75	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Mar-23) 2)CARE BBB-; Stable (27-Jul-22)	1)CARE BBB-; Stable (17-Dec-21) 2)CARE BBB-; Stable (09-Aug-21)	-
3	Debentures-Market Linked Debentures	LT	-	-	-	1)Withdrawn (31-Mar-23)	-	-

						2)CARE PP-MLD BBB-; Stable (27-Jul-22)		
4	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)Withdrawn (31-Mar-23) 2)CARE A3 (10-Aug-22)	-	-
5	Fund-based-Long Term	LT	2.22	CARE BBB+ (CE); Stable	1)CARE BBB+ (CE); Stable (22-Sep-23)	1)Provisional CARE BBB+ (CE); Stable (29-Mar-23)	-	-
6	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB	1)CARE BBB (22-Sep-23)	1)CARE BBB (31-Mar-23)	-	-

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple
2.	Fund-based-Long Term	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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