

Press Release

Akara Capital Advisors Private Limited

December 30, 2021



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE BBB Stable Assigned	
Bank Loan Ratings	25.00	ACUITE BBB Stable Upgraded	
Total	40.00	-	-

Rating Rationale

Acuite has assigned the long term rating of 'ACUITE BBB' (read as ACUITE triple B) on the Rs.15.00 Crore bank facilities of Akara Capital Advisors Private Limited. The outlook is 'Stable'.

Further, Acuite has upgraded the long term rating to 'ACUITE BBB' (read as ACUITE triple B) from ACUITE BBB-' (read as ACUITE triple B minus) on the Rs.25.00 Crore bank facilities of Akara Capital Advisors Private Limited. The outlook is 'Stable'.

Reason for Upgrade

The upgrade in the rating of the instruments factors in improved capital position of ACAPL with networth and CAR of Rs.125.6 Cr. and 46.20% respectively as on September 30,2021 supported by capital infusion from its parent company at regular intervals. Pursuant to the infusion, ACAPL has significantly scaled up its operations with disbursements of about Rs.473 Cr. for YTD October 2021 (~40% of the cumulative disbursements till October 2021). Further, at consolidated level, though MTPL's (Parent entity of ACAPL) earnings quality continues to remain modest with losses of Rs.3.8 Cr. for H1FY2022 (Provisional), it is expected to achieve breakeven in FY2022 driven by significant and sustained ramp up in both lending and tech business performance.

The rating continues to reflect the experienced promoters that have helped to build scalable business model with technology driven digital lending platform that leverages various rule based scoring engines that are used to aid the decision-making process during the life cycle of the customer. The rating also factors in with demonstrated ability to raise funds at parent entity level with last capital infusion of \$40 million from a clutch of investors Tencent Cloud Europe B.V, Uncorrelated Ventures during FY2021.

These strengths are partially offset by moderate scale of operations, modest credit profile and subdued asset quality. The ratings factors in modest, albeit improving, earnings profile at consolidated level. At consolidated level, MTPL reported losses of Rs.3.76 crore during H1FY22 [FY21 losses: Rs.17.43 crore] on account of decline in disbursements during FY21 coupled with high operating expenses. Though Acuite takes notes of the asset quality improvement with 30 dpd+ and 90dpd+ declining to 22.21% and 4.32% respectively as on October 31,2021 as against 27.20% and 10.11% respectively as on March 31,2021 and cumulative write-offs as a percentage of cumulative disbursements at 2.07% as on October 31,2021, it believes the ability of ACAPL to contain asset quality risks through efficient underwriting and collection given the inherent nature of the portfolio and evolving data analytics and machine learning will be crucial.

About the company

Incorporated in 2016, Akara Capital Advisors Private Limited (ACAPL) is a Delhi based Non-deposit taking NBFC (ND-NBFC) registered with RBI effective 2017. ACAPL is promoted by Mr. Tushar Aggarwal and Mrs. Shruti Aggarwal, who collectively have over two decades of experience in financial services. ACAPL is engaged in lending customized personal loan products ranging Rs.0.01 lacs to Rs.5 lacs, primarily to salaried customer segment. The company is originating and disbursing loan through 'Stashfin', a platform developed and operated by group company, EQX Analytics Private Limited (EAPL). The company's AUM stood at Rs.287.76 Cr. as on October 31, 2021, comprising of owned portfolio of Rs.258.05 Cr. and off-book exposure of Rs.29.71 Cr.

About the Group

Morus Technologies Pte Limited (MTPL) is a Singapore based company that commenced its operations in 2017 and is engaged in providing lending and tech services through its subsidiaries, ACAPL and EAPL respectively. MTPL is promoted by Mr. Tushar Aggarwal and Mr. Parikshit Chitalkar and is backed by investors like Tencent Cloud Europe BV and Uncorrelated Ventures and senior investment professionals of KKR and has cumulatively raised approximately USD 45 million since inception. .

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of the Morus Technologies Pte Limited (MTPL) to arrive at this rating. This approach is in view of capital support from the interlinkages between tech business ('Stashfin' app, owned by EQX Analytics Private Limited (EAPL)), MTPL (capital support & holding company) and the NBFC lending arm (ACAPL).

Extent of Consolidation: Full

Key Rating Drivers

Strength

Experienced promoters coupled with demonstrated fund raising ability

MTPL, the holding company of ACAPL, is promoted by Mr. Tushar Aggarwal (Co-founder and CEO) and Mr. Parikshit Chitalkar (Co-founder and CTO). Mr. Tushar Aggarwal has over fifteen years of experience in Investment Banking and Private Equity and was previously associated with Goldman Sachs, Lehman Brothers, General Atlantic and Everstone and Mr. Parikshit Chitalkar has over fifteen years of experience in Product Development, Risk Management, Technology and Data Analytics.

MTPL provides lending through its NBFC arm, ACAPL and offers data-driven lending platform ('Stashfin') through EAPL that facilitates lending from NBFCs (including ACAPL). MTPL has cumulatively raised \$45 million (FY2020: \$5 million, FY2021: \$40 million) since inception with most recent capital infusion in February 2021. This capital has raised from promoters and investors including Tencent Cloud Europe B.V, Uncorrelated Ventures and senior investment professionals from KKR. The board of MTPL comprises five directors including promoters and representation from three shareholder directors.

Acuité believes the business risk profile of MTPL will benefit from the support from the promoters and the ability to timely raise funds will remain a key monitorable.

Comfortable Capitalisation and gearing

At consolidated level, MTPL's networth stood at about Rs.217 Cr. with a gearing of 0.3 times

as on March 31, 2021 (Provisional). The capitalisation levels is supported by capital infusion of \$45 million till date, significant portion of which has been down streamed into ACAPL at regular intervals. Consequently, networth of ACAPL stood at Rs.76.7 Cr. translating into a CAR (comprising only Tier I) and gearing of 55.10% and 0.6 times respectively as on March 31,2021 (37.50% and 0.9 times as on March 31, 2020). As of September 2021, the networth improved to Rs.125.6 Cr. (Provisional; post capital infusion from MTPL) with CAR and gearing at 46.20% and 0.9 times respectively. Comfortable capitalization and gearing levels provide adequate

headroom to ACAPL to pursue its growth strategy and also adequate cushion to absorb asset quality shocks given the unsecured nature of portfolio.

Acuité expects MTPL's capital structure and business to continue to benefit from fund raising ability from investors.

Technology driven scalable business model

ACAPL follows digital lending model with majority of credit underwriting process performed digitally over in-house technology platform "Stashfin", owned by a group entity, EAPL which leverages self-learning algorithm. Further, the platform's risk management system tracks deviations, monitors portfolio and gives early warning signals. This enables the company to achieve scalability in business at a faster pace with well-defined risk and rule engines continuously monitoring asset quality metrics. At platform level, the cumulative disbursements since inception till October 2021 stood about Rs.1180 Cr. with active borrower base of about 6,04,690 borrowers.

Weakness

Moderate scale of operations with asset quality a monitorable

ACAPL commenced its operations in 2017 in and its Assets Under Management (AUM includes on book and off book exposure) has grown to ~Rs.288 Cr. as on October 31,2021 from ~Rs.114 Cr. as on March 31,2021 (~Rs.160 Cr. as on March 31,2020). The portfolio declined in FY2021 on account of lower disbursements of Rs.172 Cr. (FY2020: Rs.330 Cr.) mainly due to pandemic induced stress. However, capital infusion of ~Rs.104 Cr. from MTPL (YTD' November 2021) coupled with funding from multiple FIs aided in higher disbursements (7MFY2022: Rs.473 Cr.) thereby driving growth in AUM to ~Rs.288 Cr. as on October 31, 2021 .

On the asset quality front, Acuité notes the improvement with 30 dpd+ and 90dpd+ declining to 22.21% and 4.32% respectively as on October 31,2021 as against 27.20% and 10.11% respectively as on March 31,2021 with cumulative write-offs as a percentage of cumulative disbursements at 2.07% as on October 31,2021. The collection efficiency (current month basis) for August, September and October 2021 stood at 73.13%, 76.61% and 74.32% respectively. While Acuité notes the initiatives being undertaken by ACAPL to ramp up its collection capabilities which is expected to drive up the collection efficiency, it believes the ability of the company to contain asset quality risks through efficient underwriting and collection given the inherent nature of the portfolio and evolving data analytics and machine learning will be crucial.

Modest Earnings Profile

At consolidated level, MTPL reported modest earnings quality with losses of Rs.3.8 Cr. for H1FY2022 (prov.) (Rs.17.4 Cr. for the FY2021 (Provisional)). These losses are mainly on account of lower disbursements during FY2021 coupled with elevated operating expenses as a result of high initial operational set up with ramping up of both the lending (ACAPL) and technology businesses (EAPL). Further, high credit costs (Rs.4.21 Cr. during H1FY2022 and Rs.6.3 Cr. during FY2021) too attributed to subdued profitability. At standalone level, ACAPL reported profits of Rs.2.79 Cr. during H1FY2022 as against Rs.1.84 Cr. during FY2021 (Rs.0.84 Cr. during FY2020). The improvement is primarily driven by notable positive traction in the

disbursals resulting in higher NII of Rs.13.37 Cr. during H1FY2022 as against Rs.15.73 Cr. during FY2021 (Rs..45.46 Cr. during FY2020).

While Acuité takes note of uptick in disbursals in recent quarters and its favorable impact on the profitability metrics, it believes the ability of MTPL to control credit costs and increase operational efficiencies as it continues to scale its lending portfolio will be key monitorable.

Evolving nature of fintech business model; technology and regulatory risks

Given that the digital lending particularly in B2C segment is evolving and innovative technology is the backbone of fintech business model, the company is exposed to technology risks encompassing data security, privacy and technology failure. Since all the business functions including data storage, disbursals and collections is done digitally, any breach shall expose the company to cyber events and liabilities arising thereon. Also, the company is also exposed to evolving regulatory developments given that the fintech business model is at nascent stage.

Rating Sensitivity

- Promoter/ investor support
- Significant and sustained increase in AUM
- Movement in profitability and asset quality metrics
- Capitalisation and liquidity buffers
- Changes in Regulatory environment

Material Covenants

ACAPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. As per confirmation received from the company vide mail dated xx, 'the company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity Position: Adequate

ACAPL reported adequate liquidity profile as on September 30,2021 with no negative cumulative mismatches in upto one year bucket. Unencumbered cash and cash equivalents as at September 30,2021 stood at Rs.28.35 crore as on September 30,2021 and its debt obligations stood at Rs.50.77 Cr. for next 6 months, while collections at Rs.188.91 Cr. in the same period.

At consolidated level, MTPL reported cash and cash equivalents stood at Rs.140.4 Cr. as on September 30,2021 while debt obligations for six months ended March 2022 stood at Rs. 57.4 Cr.

Outlook: Stable

Acuité believes that MTPL will maintain 'Stable' outlook over the near to medium term on account of support from experienced promoters and comfortable capitalisation levels. The outlook may be revised to 'Positive' in case MTPL demonstrates significant and sustainable growth in its scale of operations while improving profitability and mitigating asset quality risks. Conversely, the outlook may be revised to 'Negative' in case of any challenges in scaling up operations or in case of any sharp deterioration in asset quality and profitability levels.

Key Financials - Standalone / Originator

Particulars	Unit	FY21(Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	132.16	106.73
Total Income*	Rs. Cr.	15.74	48.70
PAT	Rs. Cr.	1.84	0.84
Networth	Rs. Cr.	76.71	40.07
Return on Average Assets (%)		1.54	1.00
Return on Average Net (%)		3.15	2.33

Total Debt/Tangible Net Worth (Gearing)	Times	0.62	0.91
Gross NPA	(%)	-	0.81
Net NPA	(%)	-	0.49

*Total income equals to Total Income net off interest expense
Ratios as per Acuité calculations

Key Financials - Consolidated

Particulars	Unit	FY21(Provisional)	FY20 (Actual/ Provisional)
Total Assets	Rs. Cr.	308.19	*
Total Income#	Rs. Cr.	24.59	*
PAT	Rs. Cr.	(17.43)	*
Networth	Rs. Cr.	217.29	*
Return on Average Assets (RoAA)	(%)	*	*
Return on Average Net Worth (RoNW)	(%)	*	*
Total Debt/Tangible Net Worth (Gearing)	Times	0.34	*
Gross NPA	(%)	-	*
Net NPA	(%)	-	*

#Total income equals to Total Income net off interest expense
Ratios as per Acuité calculations

*Not Available

Status of non-cooperation with previous CRA (if applicable):

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Dec 2020	Proposed Bank Facility	Long Term	25.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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