

Press Release

Akara Capital Advisors Private Limited

July 01, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	Provisional ACUITE A- CE Stable Reaffirmed	-
Bank Loan Ratings	40.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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**'.

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

Acuite has reaffirmed the long-term rating of '**ACUITE Provisional A- (CE)**' (read as **ACUITE Provisional A minus (Credit Enhancement)**) on the Rs.10.00 Cr. proposed partially credit enhanced term loan facility of Akara Capital Advisors Private Limited. The outlook is '**Stable**'.

The company is in the process of sharing the legal document for the transaction required for conversion from Provisional to Final rating.

Hence, on the basis of the client's formal request, the rating committee of Acuite has approved the extension of timeline for conversion of the PCE instrument's rating. The rating will be converted from Provisional to Final upon availability of all the required documents.

The rating of the instruments factors in improved capital position of ACAPL with networth and CAR of Rs.188.30 Cr. and 44.36% respectively as on December 31, 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.879 Cr. for YTD January 2022. Further, at consolidated level, though MTPL's (Parent entity of ACAPL) earnings quality continues to remain modest with losses of Rs.16.52 Cr. as on 9MFY2022 (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

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.16.52 crore during 9MFY22 [FY21 losses: Rs.17.43 crore] on account of decline in disbursements during FY21 coupled with high operating expenses. Though Acuité takes notes of the asset quality improvement with 30 dpd+ and 90dpd+ declining to 17.39% and 4.87% respectively as on January, 2022 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.

Additionally, Acuité believes the ability of ACAPL to profitably scale up its portfolio while maintaining robustness of its technology platform given the evolving nature of FinTech model is also a monitorable.

The Rs 10.00 Cr transaction has a PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18 percent of the issue size of debentures. The level of guarantee as a percentage of the aggregate outstanding principal of the debentures is, however, capped at 30 percent.

If due to the amortization of the debentures, the credit enhancement percent exceeds 30 percent of the aggregate outstanding principal of the debentures, the Guarantee Cap shall be reduced to 30 percent of the aggregate outstanding principal of the debentures (Revised Guarantee Cap).

The rating on the Rs. 10.00 Cr proposed term loan (partial credit guarantee) is provisional and the final rating is subject to execution of following documents:

1. Debenture Trusteeship Agreement
2. Debenture Trust Deed
3. Deed of Hypothecation

About the Company

Incorporated in 2016, Akara Capital Advisors Private Limited (ACAPL) is a Delhi based Nondeposit 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.451.61 Cr. as on January, 2022, comprising of owned portfolio of Rs.410.53 Cr. and off-book exposure of Rs.41.08 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 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.

About the Guarantor

Northern Arc, previously known as IFMR Capital Finance Ltd., is a Non-Deposit taking NonBanking Financial Company (ND-NBFC) incorporated in 1989. It is involved in the placement (arranging funding for its clients via loan syndication, securitisation and assignment among others) and lending business. The company acts as a link between mainstream capital markets investors and highquality last mile lending institutions and businesses. The company's business is categorized as finance sector exposure, i.e., microfinance, affordable housing finance, commercial vehicle finance, consumer finance, agri-finance and small business loans, and non-finance sector exposure, i.e., mid-market finance and corporates.

Northern Arc reported Assets Under Management (AUM) of Rs. 6874 Cr. as on March 31, 2022 as against Rs. 5,220.87 Cr. as on March 31, 2021. Northern Arc's asset quality improved with GNPA (90+dpd) at 0.51% as on March 31, 2022 as against 2.23% as on March 31, 2021. The company's Profit After Tax (PAT) stood at Rs. 163.73 Cr for the period ending FY2022 (Rs. 67.51 Cr as of FY2021). The company's debt/equity ratio was 2.53 times as on March 31, 2021 as compared to 1.96 times as on March 31, 2020. However, the debt/equity ratio increased to 3.50 times as on March 31, 2022.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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 businesses ('Stashn' app, owned by EQX Analytics Private Limited (EAPL)), MTPL (capital support & holding company) and the NBFC lending arm (ACAPL).

Standalone rating considered for the PCE transaction of Rs 10.00 Cr:

ACUITE BBB

Key Rating Drivers

Strength

Strength of underlying structure

The Rs 10.00 Cr transaction has a PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18 percent of the issue size of debentures. The level of guarantee as a percentage of the aggregate outstanding principal of the debentures is, however, capped at 30 percent.

If due to the amortization of the debentures, the credit enhancement percent exceeds 30 percent of the aggregate outstanding principal of the debentures, the Guarantee Cap shall be reduced to 30 percent of the aggregate outstanding principal of the debentures (Revised Guarantee Cap). ACAPL shall make payments of interest and principal amounts due along with all other obligations (if any) under the Transaction Document on T-5 business days. In the event of failure of the Issuer to comply, on T-4 Business Days, the Trustee shall invoke the PCE and the credit enhancement shall be dipped on T-1 Business days. The Debentures shall be secured by way of a first ranking, exclusive and continuing charge on identified receivables. The Hypothecated Receivables shall at all times be equal to the value of 1.1 times the outstanding amounts of the facility.

In case of Issuer rating (as per Rating Agency's view) downgrade to below BB+, the Borrower will ensure that the percentage of outstanding principal value of PAR > 0 loans in the hypothecated pool does not exceed 10 percent of the outstanding principal value of the hypothecated pool.

Acuité believes that the structure provides adequate covenants to safeguard the interest of the investors.

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. 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 December 2021, the networth improved to Rs.188.30 Cr. (Provisional; post capital infusion from MTPL) with CAR and gearing at 44.36% and 1.07 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 December 2021 stood about Rs.1410 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.452 Cr. as on January, 2022 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 (10MFY2022: Rs.879.46 Cr.) thereby driving growth in AUM to ~Rs.452 Cr. as on January, 2022.

On the asset quality front, Acuité notes the improvement with 30 dpd+ and 90dpd+ declining to 17.39% and 4.87% respectively as on January, 2022 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 November, December, 2021 and January 2022 stood at 76.67%, 77.27% and 76.18% 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.16.52 Cr. for 9MFY2022 (prov.) (Rs.17.4 Cr. for the FY2021). 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 disbursements 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 disbursements 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, disbursements 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.

Assessment of Adequacy of Credit Enhancement

ACAPL has moderate experience in the unsecured personal loan and its capital position has been bolstered by capital infusions. Thus, even after considering risks such as possible asset quality deterioration, Acuité believes that the credit enhancement will stand adequate in all scenarios and in the event of any requirement, Northern Arc will provide the necessary support.

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.

Liquidity Position: Adequate

ACAPL reported adequate liquidity profile as on December 31, 2021 with no negative cumulative mismatches in upto six months bucket. Unencumbered cash and cash equivalents stood at Rs.29.16 crore as on December 31, 2021 and its debt obligations stood at Rs.113.76 Cr. for next 6 months, while collections at Rs.262.18 Cr. in the same period.

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.

Other Factors affecting Rating

Not Applicable

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
Net Worth	Rs. Cr.	76.71	40.07

Return on Average Assets (RoAA)	(%)	1.54	1.00
Return on Average Net Worth (RoNW)	(%)	3.15	2.33

Debt/Equity	Times	0.62	0.91
Gross NPA	(%)	-	0.81
Net NPA	(%)	-	0.49

*Total income equals to Net Interest Income plus other income.

Key Financials (Consolidated)

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

*Total income equals to Net Interest Income plus other income.

*Noy Available

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

None

Any Other Information

Supplementary disclosures for Provisional Ratings Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently assign a fresh final rating in the same press release, basis the revised terms of the transaction.

Rating that would have been assigned in absence of the pending steps/documentation

The structure would have become null and void for the instrument. The rating of the instrument would have been equated to the standalone rating of the issuer (ACUITE BBB/Stable).

Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The company is in the process of sharing the legal document for the transaction required for conversion from Provisional to Final rating.

Hence, on the basis of the client's formal request, the rating committee of Acuite has approved the extension of timeline for conversion of the PCE instrument's rating. The rating will be converted from Provisional to Final upon availability of all the required documents.

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-ratingcriteria-53.htm>
- Commercial Paper: <https://www.acuite.in/view-rating-criteria-54.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>

- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.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
04 Apr 2022	Proposed Term Loan	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Term Loan	Long Term	10.00	ACUITE Provisional A- (CE) Stable (Assigned)
	Proposed Term Loan	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)
30 Dec 2021	Proposed Bank Facility	Long Term	25.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Long Term	15.00	ACUITE BBB Stable (Assigned)
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 Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	Provisional ACUITE A- CE Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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