

Press Release

Quadrillion Finance Private Limited

July 27, 2021

Rating Assigned



Total Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BBB (CE)/Stable (Assigned; Converted to Final from Provisional Rating)

*Refer Annexure for details

Rating Rationale

Acuite has converted from provisional rating to final rating and assigned a long term rating of '**ACUITE BBB (CE)**' (read as **ACUITE Triple B (Credit Enhancement)**) on the Rs.10.00 Cr. of non-convertible debentures of Quadrillion Finance Private Limited. The outlook is '**Stable**'.

The rating factors in Garagepreneurs Internet Private Limited's (GIPL's) healthy capitalisation buffers with a gearing of 1.98 times (Provisional) as on March 31, 2021, its demonstrated ability in raising capital (~Rs.88 Cr since inception till December 2020). The rating further factors in experienced management team with diversified experience in respective domains as well as adequate liquidity and credit buffers. The rating also takes into account weak earnings profile and inherent risks involved in QFPL's business given moderate borrower profile and unsecured nature of lending with 90dpd+ (including write offs) at 3.26 percent (on-book basis) as on March 31, 2021. Going forward, GIPL's ability to improve asset quality and earnings profile, strengthen its capitalization levels while growing the portfolio in a continuously evolving Covid-19 pandemic would be key monitorables.

The transaction has Partial Credit Enhancement (PCE) in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc (Credit Enhancer/ Guarantor) covering 15 percent of the initial principal value of debentures. The level of guarantee as a percentage of the aggregate outstanding principal of debentures is capped at 25 percent. Additionally, the debentures have security by way of a first ranking, exclusive and continuing charge on identified receivables with 110 percent margin in favour of Trustee. QFPL shall make payments of interest and principal amounts due along with all other obligations (if any) under the Transaction Document by T-3 business days. In case of non-payment by QFPL, the Trustee shall invoke the PCE.

The final rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, deed of guarantee, legal opinion, debenture trust agreement, deed of hypothecation and other documents relevant to the transaction.

About Garagepreneurs Internet Private Limited (GIPL)

Bengaluru-based GIPL was incorporated in 2015. The company owns and operates the app 'Slice', an online platform providing various financial services to its users including facilitating loan from NBFCs like DMI Finance Private Limited, Quadrillion Finance Private Limited (wholly owned subsidiary) and others. The company is promoted by Mr. Rajan Bajaj and has raised capital of ~Rs.88 Cr. since inception till December 31, 2020, from multiple investors including Gunosy Capital, FinUp Technologies, Simile Ventures, Navi Technologies and Blume Ventures.

About Quadrillion Finance Private Limited (QFPL)

Incorporated in 2018, Bengaluru-based Quadrillion Finance Private Limited (QFPL) is a Type -II NBFC-ND is a wholly owned subsidiary of Garagepreneurs Internet Private Limited (GIPL). The company is engaged in the business of providing finance and its product offerings include slice card, cash transfers to bank and paytm wallet, e-gift vouchers. These products are offered through its digital lending platform, Slice. The company's target customers are young individuals including freelancers, college students, and salaried professionals. The company reported AUM of ~Rs.308 Cr. as on March 31, 2021.

About Northern Arc Capital Limited ("Northern Arc")

Northern Arc, previously known as IFMR Capital Finance Ltd., is a Non-Deposit taking Non-Banking 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 high-quality 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. 4,953.7 Cr. (provisional) as on March 31, 2021 as against Rs. 4,484 Cr. as on March 31, 2020. Northern Arc's asset quality moderated with GNPA (90+dpd) at 2.28% (provisional) as on March 31, 2021 as against 0.5% as on March 31, 2020. The company's Profit After Tax (PAT) stood at Rs. 56.05 Cr (provisional) as on March 31, 2021 (Rs. 89.62 Cr as on March 31, 2020). The company's debt/equity ratio was 1.96 times as on March 31, 2020 as compared to 2.55 times as on March 31, 2019. However, the debt/equity ratio increased to 2.53 times as on March 31, 2021.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of the Garagepreneurs Internet Private Limited (GIPL) to arrive at this rating. This approach is in view of common management besides financial and technology support from GIPL to QFPL. Acuité has further factored in the benefits arising from the structure while arriving at the final rating. The suffix (CE) indicates credit enhancement arising from the Partial Credit Enhancement (PCE) in the form of unconditional, irrevocable, payable on demand guarantee covering 15 percent of the initial principal value of the facility amount. The strength of the underlying structure and continued adherence to the same is central to the rating.

Accounting for the Partial Credit Enhancement, the agency has enhanced the rating of the facility to ACUITE BBB (CE)/ Stable. The Credit Enhancement (CE) in the rating is solely for the rated issue and its terms and structure. The notched up rating of the loan facility incorporates the PCE in the form of guarantee by Northern Arc Capital Limited ("Northern Arc"), acting as the Credit Enhancer/ Guarantor.

QFPL's standalone (unsupported) rating: **ACUITE BBB-/ Stable**

Extent of Consolidation: Full

Key Rating Drivers

Strengths

Strength of underlying structure

The transaction has a PCE in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 15 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 25 percent.

If due to the amortisation of the debentures, the credit enhancement percent exceeds 25 percent of the aggregate outstanding principal of the debentures, the Guarantee Cap shall be reduced to 25 percent of the aggregate outstanding principal of the debentures (Revised Guarantee Cap).

The structure envisages that if the rating of QFPL reaches BBB+ at a standalone level, the Credit Enhancement percent shall completely fall off. This will be subject to rating of the facility being maintained at BBB+ post the guarantee fall off.

QFPL shall make payments of interest and principal amounts due along with all other obligations (if any) under the Transaction Document on T-3 business days. In the event of failure of the Issuer to comply, on T-2 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 BB- or lower, the Issuer will ensure that the percentage of outstanding principal value of PAR > 0 loans in the hypothecated pool does not exceed 15 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.

Comfortable capitalisation buffers

GIPL has demonstrated track record of raising capital of ~Rs.88 Cr. since its inception till December 31, 2020, which has supported growth of the group and its capital structure. QFPL reported Assets Under Management (AUM includes on book and off book exposure) of Rs.308 Cr. as on March 31, 2021 (~Rs.164 as on March 31, 2020 and ~Rs.43 Cr as on March 31, 2019), of which Rs.149 Cr. (~48 percent) comprised owned portfolio and remaining Rs.159 Cr. (~52 percent) off-book portfolio. This growth in AUM is supported by regular capital infusion coupled with co-lending partnership with established NBFCs like DMI Finance Private Limited, Quadrillion Finance Private Limited (wholly owned subsidiary) and others.

GIPL has comfortable capitalisation and gearing levels. GIPL's networth (including compulsorily convertible debentures) stood at ~Rs.67 Cr. with gearing of 1.98 times (Provisional) as on March 31, 2021 and Capital Adequacy Ratio (CAR) (GIPL) of 35.62 percent as on December 31, 2020.

Ability to attract funding from Investors; experienced management

GIPL is engaged in providing consumer finance services through its wholly owned subsidiary namely, QFPL. The loans are originated through its online platform, 'Slice' which also facilitates loan origination for other NBFCs. GIPL has attracted funding of ~Rs.88 Cr. till December 2020 in its series A and B fund raising from a mix of early stage investors, institutional investors and individual investors, which include FinUp Technologies (China based fintech company), Blume Ventures (India based early stage venture fund), Navi Finserv Private Limited (Fintech company) and Gunosy Capital (Singapore based investment fund). Further, the promoter of GIPL, Mr. Rajan Bajaj, has an experience of 5 years in ecommerce industry and holds 18.35 percent stake (diluted basis) in GIPL. He is supported by experienced board comprising Mr. Ramadoss Krishnan, ex-banker having about 45 years of experience in BFSI space and Ms. Mahima Garg, having over a decade of experience in financial services sector. The day-to-day affairs of the company are managed by experienced team having an average experience of about a decade.

Acuité believes that GIPL's fund raising ability is likely to prove beneficial given the underpenetrated market that it caters to.

Weaknesses

Susceptible to inherent risks in unsecured lending

QFPL's borrower profile comprises of young individuals in age group 18-29 years including freelancers, college students and salaried professionals with moderate credit profile which exposes the company to asset quality risks given the vulnerability of such borrowers to economic shocks. First time borrowers contributed ~79 percent of QFPL's AUM and students comprised ~ 68 percent of the AUM followed by salaried at ~30 percent) and freelancers at ~2 percent as on December 31, 2020.

During FY2021, QFPL strengthened its asset recognition and provisioning policy. GNPA is now recognised at 90dpd from 180 dpd with provision coverage of 75 percent for assets in 90-180 dpd bucket and 1.5 percent instead of 0.4 percent for assets upto 90dpd. QFPL saw Improvement in GNPA (on-book basis) to 1.12 percent as on March 31, 2021 as against 4.07 percent as on March 31, 2020. Nevertheless, considering write-offs of Rs.3.23 Cr. (on-book basis) during FY2021 due to pandemic-induced stress, adjusted GNPA stood at 3.26 percent. Given the significant traction in AUM recently, the quality of underwriting through different economic cycles and geographies is yet to be established.

Moderate earnings profile

On a consolidated basis, GIPL's losses widened to Rs.1.98 Cr. (Prov.) during FY2021 as against losses of Rs.1.22 Cr. during FY2020, despite steady growth in revenue (Rs.90.16 Cr. (Prov.) during FY2021 as against Rs.40.68 Cr. during FY2020. This decline in profitability is due to higher provisioning on AUM to Rs.12.51 Cr. (Prov.) as against Rs.2.93 Cr. during FY2020)) recognised towards Covid-19 related stress and

strengthening of provisioning policy. Higher operating expenses of Rs.53.65 Cr. (Prov.) during FY2021 (Rs.37.02 Cr. during FY2020) as a result of initial operational setup also attributed to decline in profitability.

Rating Sensitivities

- Financial and technical support from GIPL
- Movement in collection efficiency and asset quality
- Movement in profitability parameters
- Changes in regulatory environment

Assessment for Adequacy of Credit Enhancement

QFPL has significant experience in the auto financing segment, and its moderate capital position has been bolstered by capital infusions. Thus, even after considering risks such as possible asset quality deterioration during the pandemic, Acuite 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.

Material Covenants

GIPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Liquidity Position: Adequate

QFPL has well matched liquidity profile as on December 31, 2020 with no negative cumulative mismatches up to one year bucket. Unencumbered cash and cash equivalents at Rs.7.39 Cr. as on December 31, 2020 and contractual debt obligations up to three months stood at Rs.21.31 Cr. against which contractual inflows from advances stood at Rs.67.05 Cr.

Outlook: Stable

Acuite believes that GIPL will maintain 'Stable' outlook over the near to medium term on account of support healthy capital position and support from investors. The outlook may be revised to 'Positive' in case GIPL demonstrates significant and sustainable growth in its scale of operations while mitigating asset quality risks in portfolio. 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.

About the Rated Entity - Key Financials (GIPL-Consolidated)

	Unit	FY20 (Audited)	FY19 (Audited)
Total Assets	Rs. Cr.	72.28	23.32
Total Income*	Rs. Cr.	39.16	8.27
PAT	Rs. Cr.	(1.22)	(9.88)
Net Worth	Rs. Cr.	46.46	19.40
Return on Average Assets (RoAA)	(%)	(2.56)	(68.62)
Return on Average Net Worth (RoNW)	(%)	(3.71)	(145.04)
Total Debt/Tangible Net Worth (Gearing)	Times	0.38	0.00

*Total income equals to Total Income net off interest expense

About the Rated Entity - Key Financials (QFPL)

	Unit	FY21 (Audited)	FY20 (Audited)
Total Assets	Rs. Cr.	191.12	59.83
Total Income*	Rs. Cr.	29.20	9.44
PAT	Rs. Cr.	0.38	0.65
Net Worth	Rs. Cr.	46.50	26.04

Return on Average Assets (RoAA)	(%)	0.31	2.02
Return on Average Net Worth (RoNW)	(%)	1.06	4.53
Total Debt/Tangible Net Worth (Gearing)	Times	2.85	1.15
Gross NPA	(%)	1.12	1.44
Net NPA	(%)	0.23	NIL

*Total income equals to Total Income net off interest expense

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

Not applicable

Any other information

Not Applicable

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of the Instrument/ Facilities	Term	Size of the Issue (Rs. Cr.)	Ratings/Outlook
May 12, 2021	Proposed Non-Convertible Debentures	Long Term	10.00	ACUITE Provisional BBB (CE)/Stable (Assigned)

*Annexure – Details of instruments rated

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate (% XIRR)	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Non-Convertible Debentures	May 07, 2021	14.00	May 12, 2022	10.00	ACUITE BBB (CE)/Stable (Assigned; Converted to Final from Provisional Rating)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President Tel: 022- 4929 4071 mohit.jain@acuite.in Sumit Pramanik Senior Manager - Rating Operations Tel: 07001414372 sumit.pramanik@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-4929 4021 rating.desk@acuite.in

About Acuité Ratings & Research:

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