

Press Release
Quadrillion Finance Private Limited

November 25, 2021



Rating Assigned

Product	Net Quantum (Rs. Cr)	Withdrawn Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	15.00	0.00	Provisional ACUITE BBB CE Stable Assigned	
Total	15.00	0.00	-	-

Rating Rationale

Acuité has assigned a long term rating of '**ACUITE PROVISIONAL BBB (CE)**' (**read as ACUITE Provisional Triple B (Credit Enhancement)**) on the Rs.15.00 Cr. of non-convertible debentures of Quadrillion Finance Private Limited (QFPL). The outlook is '**Stable**'.

The rating factors in the healthy capitalisation buffers with a gearing of 1.99 times as on March 31, 2021 in the consolidated financials and the group's demonstrated ability in raising capital (~Rs.88 Cr since inception till December 2020). The rating furthers factors in the experienced management team as well as adequate liquidity and credit buffers. The rating is constrained by the weak earnings profile and inherent risks involved in QFPL's business given the relatively vulnerable 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, the group's ability to improve asset quality and earnings profile while growing the portfolio in a post Covid environment would be a key monitorable.

The credit enhancement is driven by a **Partial Credit Enhancement (PCE)** in the form of an 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 the debenture 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 rating on the facilities is provisional and the final rating is subject to execution of following documents:

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

About the Company

About Quadrillion Finance Private Limited (QFPL)

Incorporated in 2018, Bengaluru-based Quadrillion Finance Private Limited (QFPL) is a Type -II NBFC-ND and a wholly owned subsidiary of Garagepreneurs Internet Private Limited (GIPL). The company is engaged in the business of providing small ticket 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.684.26 Cr. as on Sept 30,2021.

About the Group

About Garapreneurs Internet Private Limited (GIPL)

Benguluru-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 the Guarantor

About Northern Arc Capital Limited ("Northern Arc")

Northern Arc Capital Ltd, 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 caters to a wide range of NBFCs engaged in 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 gearing increased to 2.53 times as on March 31, 2021 as compared to 1.96 times as on March 31, 2020.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of Garagepreneurs Internet Private Limited (GIPL), the parent company of QFPL and the latter to arrive at this rating (referred as GIPL Group). 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.

Taking into account the PCE and the transaction structure, 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 NCD 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 the underlying structure

The transaction has a PCE in the form of an 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 PCE 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 a failure of the Issuer to comply, on T-2 Business Days, the Trustee shall invoke the PCE and the credit enhancement shall be accessed 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 of the hypothecated pool.

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

Comfortable capitalisation buffers

GIPL Group has demonstrated track record of raising capital of ~Rs.88 Cr. since its inception till December 31, 2020, which has supported growth of the business 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 (Rs 684.26 Cr as on Sept 2021). 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 Group has comfortable capitalisation and gearing levels. GIPL's networth (including compulsorily convertible debentures) stood at ~Rs.67 Cr. with gearing of 1.99 times as on March 31,2021 and Capital Adequacy Ratio (CAR) (GIPL) of 45.09 percent as on June 30, 2021.

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 an 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 consolidated losses widened to Rs.8.52 Cr. during FY2021 as against losses of Rs.1.22 Cr. during FY2020, despite steady growth in revenue (This decline in profitability is due to higher provisioning on AUM to Rs.12.51 Cr. as against Rs.3.12 Cr. during FY2020) recognised towards Covid-19 related stress and strengthening of provisioning policy. Higher operating expenses of Rs.56.93 Cr during FY2021 (Rs.37.02 Cr. during FY2020) as a result of initial operational setup also attributed to decline in profitability.

Rating Sensitivity

- Financial and technical support received by QFPL from GIPL
- Significant changes in collection efficiency and asset quality
- Any significant improvement or further deterioration in profitability
- Changes in regulatory environment

Assessment of Adequacy of Credit Enhancement

QFPL has significant experience in retail unsecured lending 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, 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.

Material Covenants

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

Liquidity Position - Adequate

The liquidity position is adequate. QFPL has well matched liquidity profile as on Sept 30, 2021 with no negative cumulative mismatches up to one year bucket. Unencumbered cash and cash equivalents at Rs 22.02 Cr. as on Sept 30, 2021.

Outlook - Stable

Acuité 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.

Key Financials - Standalone / Originator

	Unit	FY21 (Actual)	FY20 (Actual)
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

Key Financials - Consolidated

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	218.34	72.28
Total Income*	Rs. Cr.	59.52	39.16
PAT	Rs. Cr.	(8.52)	(1.22)
Net Worth	Rs. Cr.	66.60	46.46
Return on Average Assets (RoAA)	(%)	(5.86)	(2.56)
Return on Average Net Worth (RoNW)	(%)	(15.07)	(3.71)
Total Debt/Tangible Net Worth (Gearing)	Times	1.99	0.38

*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.

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) Acuité 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 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

- 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Jul 2021	Non Convertible Debentures	Long Term	10.00	ACUITE BBB (CE) Stable (Assigned)
12 May 2021	Proposed Non Convertible Debentures	Long Term	10.00	ACUITE Provisional BBB(CE) Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Size Of Issue	Rating
Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	15.00	Provisional ACUITE BBB CE Stable Assigned

Contacts

Analytical	Rating Desk
Sumit Kumar Pramanik Senior Manager-Rating Operations Tel: 022-49294065 sumit.pramanik@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité