

Press Release

Quadrillion Finance Private Limited

January 05, 2023



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	25.00	ACUITE BBB CE Reaffirmed & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	25.00	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE BBB (CE)**' (read as **ACUITE triple B (Credit Enhancement)**) on the Rs. 25.00 Cr. partially credit enhanced non-convertible debenture facilities of Quadrillion Finance Private Limited (QFPL).

The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating. The rating is being withdrawn on account of the request received from the company and the NOC received from the trustee as per Acuite's policy on withdrawal of ratings.

The rating continues to factor in Garagepreneurs Internet Private Limited's (GIPL's) healthy capitalisation buffers with a gearing of 0.94 times as on September 30, 2022, its demonstrated ability in raising capital (~Rs. 1645 Cr. since inception till September 2022). The rating furthers 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+ (net-off write offs) at 3.07 percent (on-book basis) as on September 30, 2022 (0.74 percent as on March 31, 2022).

Rationale for the Rs 15.00 Cr. and Rs. 10.00 Cr. PCE transactions:

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 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

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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. 2530.39 Cr. as on Sept 30, 2022.

About Garapreneurs 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. 1645 Cr. since inception till September 30, 2022, from multiple investors including Tiger Global, Insight Investment, Moore Ventures, Gunosy Capital, FinUp Technologies, Simile Ventures and Blume Ventures.

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. 6,874 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 percent as on March 31, 2022 as against 2.23 percent 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.

Standalone (Unsupported) Rating ACUITE BBB-

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 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.

Key Rating Drivers

Strength

Strength of underlying structure

The transactions have 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.1,645 Cr. since its inception till September 30, 2022, 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. 2,530.39 Cr. as on September 30, 2022 (Rs. 2,414.16 as on March 31, 2022 and Rs. 307.97 Cr as on March 31, 2021), of which Rs. 2,032.24 Cr. (~80 percent) comprised owned portfolio and remaining Rs. 481.39 Cr. (~20 percent) offbook 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 stood at Rs. 1,169.26 Cr. with gearing of 0.94 times as on September 30, 2022 and Capital Adequacy Ratio (CAR) (GIPL) of 34.87 percent as on September 30, 2022.

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. The promoter of GIPL, Mr. Rajan Bajaj, has an experience of 5 years in ecommerce industry and holds 18.91 percent stake (diluted basis) in GIPL as on September 30, 2022. 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.

Weakness

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 ~47 percent of QFPL's AUM and salaried comprised ~72 percent of the AUM followed by students at ~24 percent and freelancers at ~3 percent as on September 30, 2022.

During FY2021, QFPL strengthened its asset recognition and provisioning policy. Since FY2021, GNPA is recognized at 90dpd from 180dpd 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 deterioration in PAR90 portfolio (on-book basis and net-off writeoffs) to 3.07 percent as on September 30, 2022 as against 0.74 percent as on March 31, 2022. Further, the company has made write-offs (for on-book portfolio) to the tune of Rs. 12.07 Cr. in FY22 and Rs. 42.9 Cr. in H1FY23.

Moderate earnings profile

On a consolidated basis, GIPL's losses widened to Rs. 8.52 Cr. during FY2021 from losses of Rs. 1.22 Cr. during FY2020. Post reinstating to IndAS, the losses for FY2021 stood at Rs. 100.37 Cr. as a result of net loss on fair value changes of financial liability designated at FVTPL expense of Rs. 90.80 Cr. For FY2022, the losses further widened to Rs. 253.67 Cr. (Losses of Rs. 169.11 Cr. in H1FY23). This was mainly due to higher operating expenses on the back of increased marketing spend as the company continues to leverage the potential of this channel to grow its portfolio. Higher credit costs of Rs. 60.79 Cr. in FY2022 as against Rs. 6.48 Cr in FY2021 too attributed to widened losses. For H1FY23, the credit cost stood at Rs. 95.74 Cr.

Assessment of Adequacy of Credit Enhancement

QFPL has moderate experience in the unsecured loan financing segment, and its healthy capital position has been bolstered by capital infusions. Thus, even after considering risks such as possible asset quality deterioration due to the unsecured nature of the portfolio, 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.

ESG Factors Relevant for Rating

QFPL belongs to the NBFC sector which continues to complement the efforts of banks in enhancing small ticket retail lending in India. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. The entity has made adequate disclosures regarding its policies on related party transactions and whistle blowing. It also adheres to Reserve Bank of India's Fair Practices Code and has the necessary interest rate and grievance redressal policies. The board of directors consist of 2 independent directors out of a total of 5 directors. QFPL does have a woman director on its board. QFPL provides personal loans with a focus on the young working class of India.

Rating Sensitivity

Not applicable

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 Sept 30, 2022 with no negative cumulative mismatches up to one year bucket. Cash and cash equivalents (including liquid fund investments) at consolidated level stood at Rs. 193.23 Cr. as on September 30, 2022.

Outlook

Not Applicable

Other Factors affecting Rating

None

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	2357.23	190.17

Total Income*	Rs. Cr.	157.24	29.28
PAT	Rs. Cr.	9.22	3.74
Net Worth	Rs. Cr.	551.59	46.09
Return on Average Assets (RoAA)	(%)	0.72	2.99
Return on Average Net Worth (RoNW)	(%)	3.09	10.37
Debt/Equity	Times	3.16	2.88
Gross NPA (Owned portfolio)	(%)	0.74	1.36
Net NPA (Owned portfolio)	(%)	0.16	0.38

*Total income equals to Net Interest Income plus other income.
FY21 figures reinstated as per IndAS

Key Financials (Consolidated)

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	2431.19	218.95
Total Income*	Rs. Cr.	227.66	-29.69
PAT	Rs. Cr.	-253.67	-100.37
Net Worth	Rs. Cr.	961.04	-92.74
Return on Average Assets (RoAA)	(%)	-19.14	-45.91
Return on Average Net Worth (RoNW)	(%)	-58.43	-
Debt/Equity	Times	1.30	-3.04

*Total income equals to Net Interest Income plus other income.
FY21 figures reinstated as per IndAS

FY21 Total income includes Net loss on fair value changes of financial liability designated at FVTPL of Rs. 90.80 Cr.

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

None

Any Other Information

None

Applicable Criteria

- Rating of Non-Banking Financing Entities: <https://www.acuite.in/view-ratingcriteria-44.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria53.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria49.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jan 2022	Non Convertible Debentures	Long Term	15.00	ACUITE BBB (CE) Stable (Assigned)
	Non Convertible Debentures	Long Term	10.00	ACUITE BBB (CE) Stable (Reaffirmed)
25 Nov 2021	Proposed Non Convertible Debentures	Long Term	15.00	ACUITE Provisional BBB(CE) Stable (Assigned)
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	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE010107051	Non-Convertible Debentures (NCD)	Aug 5 2021 12:00AM	13.85	Nov 4 2022 12:00AM	Simple / Complex	15.00	ACUITE BBB CE Reaffirmed & Withdrawn
Not Applicable	INE010107010	Non-Convertible Debentures (NCD)	May 7 2021 12:00AM	14.00	May 12 2022 12:00AM	Simple / Complex	10.00	ACUITE BBB CE Reaffirmed & Withdrawn

Contacts

Analytical	Rating Desk
Yash Bhalotia Analyst-Rating Operations Tel: 022-49294065 yash.bhalotia@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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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