

Press Release
LOANTAP CREDIT PRODUCTS PRIVATE LIMITED
December 24, 2021
Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Shc R
Bank Loan Ratings	10.00	Provisional ACUITE BBB+ CE Stable Assigned	
Total	10.00	-	-

Rating Rationale

Acuité has assigned a long term rating of 'ACUITE PROVISIONAL BBB+ (CE)' (read as ACUITE Provisional Triple B plus (Credit Enhancement)) on the Rs.10.00 Cr. of proposed term loan of Loantap Credit Products Private Limited (LCPPL). The outlook is 'Stable'.

The rating factors in the presence of experienced promoters, Mr. Satyam Kumar (CEO and co-founder) and Mr. Vikas Kumar (CTO and co-founder) who have a vast experience in financial services and technology and product development with experienced senior management team. The rating further factors in cumulative infusion of Rs.170 Cr. in LFTPL from several investors (individual and institutional) till date which supported its capitalization levels. At LCPPL level, regular infusion from LFTPL resulted in CAR and Tier at comfortable levels at 45.16% and 44.30% respectively as on September 30,2021. The rating is constrained by modest scale of operations with subdued disbursement levels during FY2021 leading to muted growth in AUM. Further, profitability remained subdued during FY2021 on account of elevated credit costs on the back of high write-offs and high provisions. While Acuité takes note of uptick in performance during H1FY2022, the ability of LCPPL to profitably & sustainably scale up its business volumes remains to be seen. Further, Acuité believes the asset quality will remain a monitorable given the unsecured nature of portfolio.

The transaction has Partial Credit Enhancement (PCE) in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc (Credit Enhancer) covering 18 percent of the initial principal value of facilities. The level of guarantee as a percentage of the aggregate outstanding principal of facilities is capped at 24 percent. Additionally, the facilities have security by way of a first ranking, exclusive and continuing charge on identified receivables with 110 percent margin in favour of Trustee. LCPPL shall make payments of interest and principal amounts due along with all other obligations (if any) under the Transaction Document by T-5 business days. In case of non-payment by LCPPL, the Collection and Payout Agent shall invoke the PCE.

The rating on facilities is provisional and the final rating is subject to execution of following documents:

1. Deed of guarantee
2. Trust Deed
3. Deed of hypothecation

About Loantap Credit Product Private Limited (LCPPL)

LCPPL is a retail lender providing personal loans to the retail salaried segment and MSME & SME loans through a digital model. LCPPL offers personal loans for amounts of Rs.50,000 –Rs.10 lacs for tenures ranging from 6 Months - 5 Years to salaried, self-employed professional individuals and business owners. The company was earlier known as Lotus Sree Filco Pvt Ltd (LSFPL) and post acquisition of stake by LFTPL in 2016 , it was renamed Loantap Credit Products Private Limited (LCPPL). LFTPL held 99.74% stake in LCPPL as on March 31,2021. The company has active borrower base of 22,552 borrowers with AUM of Rs.324.9 Cr. as on 31

About Loantap Financial Technologies Private Limited (LFTPL)

Incorporated in 2016, Pune based LFTPL group is a digital lending company providing various financial services to its users including facilitating loan from NBFCs like MAS Financial Services Limited, Ujjivan SFB, LCPPL (subsidiary), I-Loan Credit Private Limited and others. The company is promoted by Mr. Satyam Kumar (CEO and co-founder) and Mr. Vikas Kumar (CTO and co-founder) who collectively have over four decades of experience in financial services and technology and product development. LFTPL has raised capital of ~Rs.170 Cr. since inception till October 31, 2021, from multiple investors including Shunwei Ventures, 3One4 Capital, KAE and Kalysta Capital, Avaana Capital Growth Fund I, India Quotient and others.

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., midmarket 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

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 Loantap Financial Technologies Private Limited (LFTPL) to arrive at this rating. This approach is in the view of the equity funds raised by the Holding Company LFTPL and subsequently downstreamed to its operating Subsidiaries (LCPPL and I-loan). 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 18 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.

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

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 18 percent of the issue size of the facilities. The level of guarantee as a percentage of the aggregate outstanding principal of the facilities is, however, capped at 24 percent.

If due to the amortisation of the facilities, the credit enhancement percent exceeds 24 percent of the aggregate outstanding principal of the facilities, the Guarantee Cap shall be reduced to 24 percent of the aggregate outstanding principal of the facilities (Revised Guarantee Cap).

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

LCPPL 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 Collection and Payout Agent shall invoke the PCE and the credit enhancement shall be dipped on T-1 Business days.

The facilities 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.

Experienced management

LCPPL is promoted by Mr. Satyam Kumar (CEO and co-founder) and Mr. Vikas Kumar (CTO and co-founder) who have a vast experience in financial services and technology and product development. Mr. Satyam Kumar has over 20 years of experience in mortgage book building, asset backed finance and product development. Mr. Vikas Kumar has over 20 years of experience in Technology and Online platform and is also involved in investing and mentoring start-ups like MobiKon Technologies, Infinity Assurance. The promoters are supported by experienced senior management team heading different verticals with adequate and relevant experience in their respective fields.

Acuité believes the business risk profile of the company will benefit from the support from the management.

Adequate capitalisation with demonstrated ability to attract funding

LFTPL, the holding company of LCPPL, has raised Rs.170 Cr. through multiple rounds of capital infusion at regular intervals since its inception from several investors (individual and institutional) including Shunwei Ventures, Zone4 Capital, KAE and Kaysta Capital with last funding round in 2020 of Rs.89.99 Cr. The steady flow of capital has supported networth of LFTPL which stood at Rs.166.2 Cr. with a gearing ratio of 1.16 times as of September 2021. These funds have, in turn, supported capitalisation levels of LCPPL with CAR and Tier I ratio at 45.16% and 44.30% respectively as on September 30,2021 (43.21% and 42.37% as on March 2021).

Weaknesses

Modest scale of operations and asset quality being a monitorable

LCPPL commenced its operations in 2016 in unsecured personal loan segment and has lending presence across India enabled by its digital lending model (through "Loantap", owned by the parent entity, LFTPL) and caters to salaried, self-employed professional individuals and business owners in the age group of 23-58 years with minimum monthly income of Rs.30,000. LCPPL performs majority of credit underwriting process digitally enabling it to achieve scalability in business at a faster pace with continuous monitoring of asset quality metrics.

Concomitantly, cumulative disbursements at AUM (own portfolio+ managed portfolio) level stood at ~Rs.700 Cr. till September 20201. The AUM stood at Rs.324.9 Cr. as on October 31,2021 (Rs.306 Cr. as on March 31,2021 and Rs.293.5 Cr. as on March 31,2020). The growth slowed down during FY2021 primarily on account of lower disbursals of Rs.108 Cr. (FY2020: Rs. 220.04 Cr.) due to pandemic stress. However, disbursements levels have steadily picked up since August 2021 (August 2021:Rs.10.75 Cr., September 2021: Rs.14.04 Cr. and October 2021: Rs.20.89 Cr.) contributing to marginal growth in AUM.

LCPPL has adopted a policy of Non-Performing Assets (NPA) recognition based on 180+ DPD with 10% provision coverage ratio and as for write offs, dues falling into 450dpd+. LCPPL's asset quality witnessed deterioration with GNPA (180dpd+) at 4.33% respectively as on March 2021 (March 2020: 2.16%). Acuite takes note of restructuring carried out under RBI Resolution framework 1.0 and 2.0 with outstanding portfolio at Rs.52.7 Cr. (16.22% of the own portfolio as on October 31,2021) which coupled with uptick in monthly current collection efficiency (August 2021:85.24%, September 2021: 91.63% and October 2021: 93.09%) has aided in improvement in asset quality with GNPA at 3.33% respectively as of October 2021. Further, cumulative write offs as percentage of cumulative disbursements till September 2021 stood at 2.5% (1.7% as of March 2021.)

Acuite believes that the company's business is yet to stabilize given its modest scale of operations; its scalability and the asset quality needs to be monitored given unsecured nature of portfolio.

Moderate profitability

On a Consolidated basis, the Company broke-even in FY20 with a consolidated net profit after tax of Rs. 0.60 crore. However, due to COVID-19 related stress, earnings profile deteriorated during FY21 with LCPPL reporting a net loss of Rs. 4.91 crore mainly due to higher write offs of Rs. 10.03 crore as compared to PAT during FY20 of Rs. 0.40 crore. The credit costs (as percentage of earning assets) increased to 5.89% as of March 2021 (0.62% as of March 2020) on the back of high write offs and higher provisions as a result of pandemic induced stress. NIM too remain muted at 7.59% as of March 2021 as against 7.95% as of March 2020 as disbursements slowed down, contributing to modest profitability. Operating expenses (as percentage of earning assets) improved to in this period.

For H1FY2022, LFTPL reported nominal profits of Rs.0.6 Cr. on total income of Rs.35.1 Cr. (loss of Rs.5.6 Cr. on total income of Rs.55.3 Cr. during H1FY2021).

Acuité believes that LFTPL's ability to sustain improvement in earnings profile in the current operating environment coupled with the intense competition in the unsecured loan segment will be key rating monitorable.

Assessment for Adequacy of Credit Enhancement

LFTPL, the holding company of LCPPL, has raised Rs.170 Cr. through multiple rounds of capital infusion at regular intervals since its inception from several investors (individual and institutional) including Shunwei Ventures, 3one4 Capital, KAE and Kaysta Capital with last funding round in 2020 of Rs.89.99 Cr. 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.

Rating Sensitivity

- Parent/Investor Support
- Significant and sustained increase in AUM
- Significant changes in collection efficiency and asset quality
- Any significant improvement or further deterioration in profitability
- Changes in regulatory environment

Material Covenants

LCPPL 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 December 16,2021, 'the Company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity position - Adequate

LCPPL has adequate liquidity profile as on September 30,2021 with no negative cumulative mismatches upto 1 year bucket.

At consolidated level, cash and cash equivalents at ~Rs.46 Cr. stood at as of October 2021 and debt obligations for six months ended Apr 2022 at ~Rs.97 Cr. while collections in the same period stood at ~Rs.95 Cr. (stressed by 10%).

Outlook - Stable

Acuité believes that LCPPL will maintain 'Stable' outlook over the near to medium term on account of support from experienced management and adequate capitalisation levels. The outlook may be revised to 'Positive' in case LCPPL demonstrates significant and sustainable growth in its scale of operations while sustaining improvement in profitability and mitigating asset quality risks in portfolio and sustaining. 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	FY2021 (Actual)	FY2020 (Actual)
Total Assets	Rs. Cr.	317.65	287.65
Total Income (Net of Interest Expense)	Rs. Cr.	23.99	22.32
PAT	Rs. Cr.	(4.91)	0.40
Net Worth	Rs. Cr.	115.80	120.71
Return on Average Assets (RoAA)	(%)	(1.62)	0.17
Return on Average Net Worth (RoNW)	(%)	(4.15)	0.47
Total Debt/Tangible Net Worth (Gearing)	Times	1.59	1.32
Gross NPAs	(%)	-	-
Net NPAs	(%)	-	-

Key Financials - Consolidated

	Unit	FY2021 (Actual)	FY2020 (Actual)
Total Assets	Rs. Cr.	376.09	344.24
Total Income (Net of Interest Expense)	Rs. Cr.	30.92	28.62
PAT	Rs. Cr.	(5.56)	0.06
Net Worth	Rs. Cr.	165.61	170.96
Return on Average Assets (RoAA)	(%)	(1.54)	0.02
Return on Average Net Worth(RoNW)	(%)	(3.30)	0.05
Total Debt/Tangible Net Worth (Gearing)	Times	1.15	0.96
Gross NPA	(%)	4.33	2.16
Net NPA	(%)	3.90	1.95

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

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.

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 :

Not applicable.

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 BBB+ CE 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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