

Press Release

Loantap Credit Products Private Limited

March 29, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BBB+ CE Stable Assigned Provisional To Final	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has converted from provisional to final long-term rating of '**ACUITE BBB+ (CE)**' (read as **ACUITE Triple B plus (Credit Enhancement)**) on the Rs.10.00 Cr. of partially credit enhanced term loans of Loantap Credit Products Private Limited (LCPPL). The outlook is '**Stable**'.

The rating factors in the consolidated business and financial risk profile of the Loantap Financial Technologies Private Limited (LFTPL) to arrive at this rating. This approach is in view of in the view of common management besides interlinkages between tech business ('Loantap' application, owned by LFTPL) and capital support from parent company. The rating also accounts for the fact that the company's 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.

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 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 Loantap Credit Product Private Limited (LCPPL)

Incorporated in 1996, Loantap Credit Products Private Limited, an ND- NBFC based out of Pune, founded by Mr Satyam Kumar and Mr Vikas Kumar, is engaged in providing unsecured personal loans through its in-house app, 'Loantap' owned and operated by its parent company, Loantap Financial Technologies Private Limited (LFTPL). 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 October 2021.

About Loantap Financial Technologies Private Limited (LFTPL)

Pune based LFTPL owns and operates the app 'Loantap', an online platform 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, 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 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. 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

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 view of in the view of common management besides interlinkages between tech business ('Loantap' application, owned by LFTPL) and capital support from parent company. 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

Strength

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 Trustee 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, 3one4 Capital, KAE and Kaysta Capital with last funding round in 2020 of Rs.89.99 Cr. The steady flow of capital has supported network 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).

Weakness

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 2020. 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 disbursements of Rs.108 Cr. (FY2020: Rs.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. (21.70% 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, profitability remained subdued with LFTPL posting losses of Rs.5.6 Cr. during FY2021 (profits (PAT) of Rs.0.1 Cr. during FY2020). Resultantly, ROAA declined to negative 1.54% as on March 31,2021 from 0.02% as on March 31,2020. The steep losses were mainly on account of higher credit costs coupled with muted NIM. The credit costs (as percentage of earning assets) rose substantially 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).

Acuite 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 of 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, 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.

ESG Factors Relevant for Rating

LFTPL 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. The industry, by nature has a low exposure to environmental risks. The entity has made adequate disclosures regarding its policies on related party transactions, vigil mechanism. It also has the necessary grievance redressal policies. The board of directors consist of 3 directors. LFTPL

does not, however have a woman director on its board. In accordance with the guidelines issued by RBI, the entity has constituted a Risk Management Committee that is responsible for identification, evaluation and mitigation of operational, strategic and external environment risks. LFTPL provides personal loan, salary advance loan and business loan with a focus on the young working class of India. LFTPL aims at making credit highly accessible to the salaried and self-employed segment through adoption of technology. LFTPL supports community development through Investor Education and Protection Fund.

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

LCPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. The Company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.

Liquidity position - Adequate

- Strong • Adequate • Poor • Stretched

LCPL 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%).

The PCe transaction has a guarantee of 18 percent provided by Northern Arc.

Outlook - Stable

Acuité believes that LFTPL 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 LFTPL 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

Any Other Information

None

Applicable Criteria

Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria44.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
24 Dec 2021	Proposed Term Loan	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	Quantum (Rs. Cr.)	Rating
Hinduja Leyland Finance Ltd.	Not Applicable	Term Loan	24-12-2021	12.10	24-12-2023	10.00	ACUITE BBB+ CE Stable Assigned Provisional To Final

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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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