

Press Release

Rupeek Capital Private Limited

October 19, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.50	ACUITE BBB+ CE Negative Assigned Stable to Negative Provisional To Final	-
Total Outstanding Quantum (Rs. Cr)	7.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has converted from provisional to final the long-term rating of '**ACUITE BBB+ (CE)**' (read as **ACUITE triple B plus (Credit Enhancement)**) on the Rs. 7.50 Cr. partially credit enhanced term loan facility of of Rupeek Capital Private Limited (RCPL). The outlook is revised to '**Negative**' from '**Stable**'.

Reason for Revision in Outlook:

The revision in outlook is on account of weak profitability metrics, moderate growth in operating revenue. The profitability remained subdued due to high operating expenses which includes the group's extensive marketing exercise. The losses for FY22 widened to Rs. 364.38 Cr. as compared to 9MFY22 losses of Rs.220.54 Cr. (FY21: Rs.-156.37 Cr.; FY20: Rs.-77.16 Cr.). The group AUM increased to Rs. 2075.86 Cr. as on March 31, 2022 as against Rs. 1452.94 Cr. as on March 31, 2021. However, the operating income (net off interest expense) remained subdued at Rs. 109.99 Cr. in FY22 as against Rs. 82.19 Cr. in FY21.

The rating continues to take into account the comfortable capitalization levels as a result of steady capital infusion from promoters/ investors as well as comfortable liquidity buffers. RFPL has raised approximately USD 172.8mn in multiple rounds of equity infusion till January 2022 of which ~USD 33.50 mn was raised in January 22. The rating also factors in experienced management and resourceful board supported by professional management team. The company has comfortable capitalization levels of 29.11 percent as on March 31, 2022. As a result of periodic infusions, the company has been witnessing healthy disbursements. During FY22 the company disbursed Rs.498.43 Cr. as against Rs.193.17 Cr. in FY21. Subsequently, the AUM stood at Rs. 2075.86 Cr. as on FY22 (Rs. 1452.94Cr. : FY21, Rs.653.81Cr. : FY20).

The rating is however constrained due to deteriorating in the asset quality of unsecured portfolio with GNPA at POS level rising to 5.72% as on December 31, 2021 vis a vis 3.17% as on September 30, 2021 and 0.45% as on March 31, 2021. However, the PAR 90+dpd stood at 3.2 percent as on June 30, 2022. The ratings are further constrained due to continued losses at consolidated levels, evolving nature of fintech model as well as technology & regulatory risks associated with the business. Going forward, RFPL's ability to scale up its operations, achieving sustained profitability and improving asset quality will remain key monitorables.

The Rs. 7.50 Cr facility has a Partial Credit Enhancement (PCE) in the form of unconditional, irrevocable, payable on demand guarantee by Northern Arc covering 18 percent of the issue size of issuance. The level of guarantee as a percentage of the aggregate outstanding principal of the facility is, however, capped at 24 percent. If due to the amortisation of the facility, the credit enhancement percent exceeds 24 percent of the aggregate outstanding principal of the facility, the Guarantee Cap shall be reduced to 24 percent of the aggregate outstanding principal of the facility (Revised Guarantee Cap). 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 the Company

RCPL is a wholly owned subsidiary of RFPL (headquartered in Bangalore, Karnataka) that was established with the goal of collaborating with the parent's lending partners on loans. In December 2017, RCPL received its NBFC licence and began disbursing gold loans on its own, using the Rupeek platform. In April 2019, RCPL began co-lending with RFPL's lending partners and has been steadily growing the business since July 2019.

About the Group

RFPL, which was founded in August 2015, has created an asset-backed online lending platform. In January 2016, it began disbursing gold loans using its app, Rupeek, with the lending partner.

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. 6874 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% as on March 31, 2022 as against 2.23% 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.

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 Rupeek Fintech Private Limited (RFPL) to arrive at this rating. This approach is in view of capital, operational and managerial support from the parent entity, RFPL besides interlinkages between ('Rupeek' platform) and RCPL.

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. Taking into account the PCE and the transaction structure, the agency has enhanced the rating of the facility to ACUITE BBB+ (CE). The Credit Enhancement (CE) in the rating is solely for the

rated issue and its terms and structure. The notched up rating of the proposed term loan incorporates the PCE in the form of guarantee by Northern Arc Capital Limited ("Northern Arc"), acting as the Credit Enhancer/ Guarantor.

Standalone rating considered for the PCE transaction of Rs 7.50 Cr:

ACUITE BBB-/Negative

Key Rating Drivers

Strength

Strength of underlying structure

The Rs 7.50 Cr 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 facility. The level of guarantee as a percentage of the aggregate outstanding principal of the facility is, however, capped at 24 percent. If due to the amortisation of the facility, the credit enhancement percent exceeds 24 percent of the aggregate outstanding principal of the facility the Guarantee Cap shall be reduced to 24 percent of the aggregate outstanding principal of the facility (Revised Guarantee Cap). RCPL 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 facility 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 below BB+, the Borrower will ensure that the percentage of outstanding principal value of PAR > 0 loans in the hypothecated pool does not exceed 10 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 capitalization levels coupled with regular capital support from marquee investors

Rupeek Fintech Private Limited (RFPL), the holding company of RCPL, is promoted by Mr. Sumit Maniyar, MD and CEO, who has extensive expertise in objectively analysing firms on fundamentals and managing large-scale institutional investors. RFPL is backed by investors like Accel India and Bertelsmann Nederland and has completed multiple rounds of equity funding and raised approximately USD 172.8M in funding over 7 rounds. The latest funding amounting to ~USD 33.50 was raised in January 2022. The multiple rounds of equity infusion since inception has enabled RFPL to maintain comfortable capital position. The company has reported Overall CAR of 29.11 percent in FY22 (25.56 percent in FY21, 31.23 percent in FY20). Comfortable capitalization levels provide adequate headroom to RFPL to pursue its growth strategy and also adequate cushion to absorb asset quality shocks given the largely unsecured nature of its on book portfolio.

Acuité believes the business risk profile of RFPL will benefit from the support from the management and presence/backing of marquee investors.

Continued growth in disbursements, thereby fueling AUM growth

As a result of periodic infusions, the company has been able to increase its disbursement levels. During FY22 the company disbursed Rs.498.43 Cr. as against Rs.193.17Cr. in FY21. In Q1FY23, the company disbursed loans amounting Rs. 221.29 Cr. Subsequently, the AUM stood at Rs.2707.35 Cr. as on June, 2022 (Rs. 1452.94Cr. : FY21, Rs.653.81Cr. : FY20). Of the total AUM, off book constituted ~90% with the remaining being largely unsecured on- book portfolio (tie-ups with banks such as Federal Bank, ICICI Bank & Karur Vysya Bank).

Acuité believes that the ability of RFPL to consistently scale up its portfolio a key monitorable.

Weakness

Deteriorating asset quality

RFPL's on-book portfolio, which is mostly made up of unsecured loans, has seen asset quality deterioration, with GNPA at 5.72 percent as of December 31, 2021 (H1FY22: 3.17 percent) due

to the bulk of delinquencies in the unsecured section of the portfolio. As on June 30, 2022, the PAR 90+dpd stood at 3.2 percent. The collection efficiency (RCPL) for current month (excluding writeoffs) stood at 66.28% as on July, 2022.

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

Weak profitability parameters

The company has moderate profitability characterized by losses during FY22, FY21, FY20 on consolidated levels. For FY2022, the consolidated earnings profile was at losses of Rs. 364.38 Cr. which widened from 9MFY22 losses of Rs.220.54 Cr. (Rs.(156.37)Cr. : FY21, Rs.(77.16)Cr. : FY20) on account of high operating expenses and credit costs. The company has also onboarded additional employees for enhancing product reach and have picked up high marketing costs for promotions.

Acuite believes that the group's (consolidated) ability to reach profitability levels in medium to long term will be key rating monitorable.

Evolving nature of fintech business model

Given that the digital lending particularly in B2C segment is evolving and company is still in the early stage of operations, it is yet to be seen how the companies achieve the scalability and sustained profitability.

Technology and regulatory risks

Given that innovative technology is the backbone of fintech business model, the company is exposed to technology risks encompassing data security, privacy and technology failure. Since all the business functions including data storage, disbursements and collections mechanism is done digitally, any breach shall expose the company to cyber events and liabilities arising thereon. Acuite understands that the company is frequently conducting tech audit to keep a track of any potential risk. Additionally, the company is also exposed to evolving regulatory developments given that the fintech business model is at nascent stage.

Assessment of Adequacy of Credit Enhancement

RCPL has significant experience in the unsecured loan financing sector, and its moderate profitability position has been bolstered by recent capital infusions in FY21. Thus, even after considering risks such as possible asset quality deterioration, 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.

Rating Sensitivity

- Parent/investor support
- Significant and sustained increase in AUM
- Movement in profitability and asset quality metrics
- Changes in Regulatory environment

Material Covenants

Rupeek Capital Private Limited (RCPL) is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Liquidity Position

Adequate

RCPL's liquidity profile as on June 30, 2022 is well matched with no negative cumulative mismatches up to one-year bucket. As on June 2022, cash and bank balances for the company stood at Rs.16.97 Cr. at a standalone level. At consolidated level, cash and cash equivalents stood at Rs. 74.42 Cr as on March, 2022.

Outlook : Negative

Acuite believes that RFPL will maintain 'Negative' outlook over the near to medium term on account of weakened earnings profile. The outlook may be revised to 'Stable' in case RFPL demonstrates sustainable growth in its profitability along with timely infusion of capital.

The rating may be downgraded if in case of any further elevation in losses and higher than expected deterioration in asset quality.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	312.88	139.10
Total Income*	Rs. Cr.	7.66	8.32
PAT	Rs. Cr.	-2.39	0.96
Net Worth	Rs. Cr.	76.44	26.13
Return on Average Assets (RoAA)	(%)	-1.06	0.86
Return on Average Net Worth (RoNW)	(%)	-4.66	3.73
Debt/Equity	Times	2.96	4.21
Gross NPA (Owned portfolio)	(%)	1.69	0.53
Net NPA (Owned portfolio)	(%)	0.66	0.31

*Total income equals to Net Interest Income plus other income.

Key Financials (Consolidated)

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	665.43	582.05
Total Income*	Rs. Cr.	109.99	82.19
PAT	Rs. Cr.	-364.38	-156.37
Net Worth	Rs. Cr.	366.89	469.38
Return on Average Assets (RoAA)	(%)	-58.42	-31.57
Return on Average Net Worth (RoNW)	(%)	-87.14	-37.04
Debt/Equity	Times	0.62	0.14

*Total income equals to Net Interest Income plus other income.

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-ratingcriteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- Consolidation of Companies: <https://www.acuite.in/view-rating-criteria-60.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
04 Jul 2022	Proposed Term Loan	Long Term	7.50	ACUITE Provisional BBB+(CE) Stable (Reaffirmed)
22 Apr 2022	Proposed Term Loan	Long Term	7.50	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	Not available	Not available	Not available	7.50	ACUITE BBB+ CE Negative Assigned Stable to Negative Provisional To Final

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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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