

Press Release

Krazybee Services Private Limited

November 23, 2021



Rating Assigned and Reaffirmed

Product	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	200.00	ACUITE BBB+ Stable Reaffirmed	
Commercial Paper (CP)	75.00		ACUITE A2+ Reaffirmed
Non Convertible Debentures (NCD)	50.00	PP-MLD ACUITE BBB+ Stable Assigned	
Total	325.00	-	-

Rating Rationale

Erratum: In the original PR dated November 23, 2021, status of non-cooperation with previous CRA was not captured which has now been revised in this version.

Acuité has assigned the long-term rating of 'ACUITE PP-MLD BBB+' (**read as ACUITE Principal Protected Market Linked Debentures triple B Plus**) on the Rs.50.00 Cr. principal protected market linked debentures of Krazybee Services Private Limited (KSPL). The outlook is '**Stable**'.

Further, Acuité has reaffirmed the long term rating of 'ACUITE BBB+' (**read as ACUITE B plus**) on the Rs.200.00 Cr. of bank loan facilities of Krazybee Services Private Limited(KSPL). The outlook is '**Stable**'.

Acuité has reaffirmed the short term rating of 'ACUITE A2+' (**read as ACUITE A two plus**) on the Rs.75.00 Cr. of proposed commercial paper programme of Krazybee Services Private Limited(KSPL).

The rating takes into account the healthy capitalization levels as a result of steady capital infusion from investors as well as comfortable liquidity buffers. Finnov Private Limited (FPL) has raised USD 190 million (primary and secondary) in multiple rounds of equity infusion till March 2021. As a result, the consolidated tangible networth increased to Rs.696.6 Cr. as on March 31, 2021 [P.Y.: Rs.477.0 Cr.]. The rating also factors in experienced management and resourceful board that has helped to build scalable business model with robust risk management systems and technology driven digital lending platform. The company has adopted branchless lending practice by putting in place the credit risk management frameworks and processes which are largely end to end automated thereby requiring minimal human intervention. There are various rule based scoring engines that are used to aid the decision-making process during the life cycle of the customer. The company leverages on the technology platform and compiles information through various sources which includes the bank statement, credit bureau score, KYC checks, social behavior etc. for the assessment. This has enabled FPL in achieving cumulative disbursements of over Rs.10,000 Cr. and build a customer base of over 40 lac borrowers (including active customer base of KSPL of

approximately 8 lac borrowers as on March 31, 2021). This in turn helped FPL to post profits in its early stage of operations. The group continuously monitors the collection efficiency with in-house team of around 590 staff and tie up with third party agencies across product and segments which helps in fine tuning the model.

These strengths are however partially offset by muted profitability indicators during FY2021 on account of subdued disbursement levels leading to decline in AUM coupled with elevated credit costs on account of high write-offs. While the group has demonstrated track record of disbursals and expanding client base, its ability to profitably & sustainably scale up business volumes remains to be seen. Acuité take note of cautious approach adopted by the management to discontinue ultra-short tenor loan product and expand its relatively longer tenor loans which is expected to support growth in AUM. Nonetheless, the asset quality will remain a monitorable given unsecured nature of portfolio besides technology and regulatory risks. Additionally, Acuité believes the ability of KSPL to profitably scale up its portfolio while maintaining robustness of its technology platform/ security given the evolving nature of fintech model is also a monitorable.

About the company

Krazybee Services Private Limited (KSPL) is a Bengaluru-based Systemically Important NBFC-ND that operates in unsecured lending segment through a digital lending platform, "Kreditbee" owned by a group entity, Finnovation Tech Solutions Private Limited (FTSPL). KSPL is a subsidiary of FPL and has a board of six directors including three independent directors. The company commenced its operations in May 2017 and has leveraged the digital platform to expand its presence across India with an active borrower base of approximately 8 lacs and Assets Under Management (AUM) of Rs.660.5 Cr. as on June 30, 2021.

About the Group

Finnov Private Limited (FPL) is a Singapore based company that commenced its operations in May 2016 and is engaged in providing lending and lending platform through its subsidiaries, KSPL and Finnovation Tech Solutions Private Limited (FTSPL) respectively. FPL is promoted by Mr. Madhusudhan Ekambaram, Mr. Karthikeyan Krishnaswamy, and Mr. Vivek Veda who are part of the board that also comprises four shareholder directors. FPL is backed by marquee investors like Premji Invest, Motilal Oswal, Mirae Asset and ICICI Bank Bahrain and has raised approximately USD 190 million (primary and secondary) through multiple rounds of equity infusion.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of the Finnov Private Limited (FPL) to arrive at this rating. This approach is in view of capital, operational and managerial support from the parent entity, FPL besides interlinkages between FTSPL ('Kreditbee' platform) and KSPL.

Extent of Consolidation: Full

Key Rating Drivers

Strength

Experienced management team coupled with backing from marquee investors

Finnov Private Limited (FPL), the holding company of KSPL, is promoted by Mr. Madhusudhan Ekambaram, CEO and Director having over 15 years of experience in various fields including product portfolio management, sales and business development, Mr. Karthikeyan Krishnaswamy, CTO and Director having over 12 years of experience in technology and products and Mr. Vivek Veda with over 14 years of experience dealing in multiple domains in

Finance. The company provides lending through its NBFC arm, KSPL and offers data-driven lending platform ('Kreditbee') through FTSPL that facilitates lending via NBFCs and banks. FPL is backed by marquee investors like Premji Invest, Motilal Oswal, ICICI Bank Bahrain, NewQuest Capital and Mirae Asset and has completed multiple rounds of equity funding and raised approximately USD 190 million (primary and secondary) funding till March 2021, of which USD 147 million (primary and secondary) was raised in latest round in FY2021. The board of FPL comprises eight directors including promoter group and representation from four shareholder directors.

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

Comfortable capital position and gearing

The multiple rounds of equity infusion since inception in 2016 has enabled FPL to maintain comfortable capital position and gearing levels. On a consolidated basis, FPL reported networth of Rs.696.6 Cr. as on March 31, 2021 (FY2020: Rs.477.0 Cr.) with gearing of 0.67 times as on March 31, 2021 (FY2020: 1.66 times). CAR and Tier I of KSPL improved to 64.60 % and 63.48% respectively as on March 31, 2021 (FY2020: 29.77 % and 29.42 % respectively). Comfortable capitalization and gearing levels provide adequate headroom to KSPL to pursue its growth strategy and also adequate cushion to absorb asset quality shocks given the unsecured nature of portfolio.

The company has demonstrated ability to raise capital, both equity and debt. On the debt front, the company has well diversified resources profile with healthy resources raising ability. Acuité expects FPL to maintain gearing of 2.5 times on a steady state basis in the near to medium term.

Acuité expects the Group to continue to benefit from diversified funding mix across domestic banks, Institutional investors and lenders, foreign investors and domestic retail investors amongst others.

Scalable business model with robust risk management systems

KSPL has lending presence across India enabled by its digital lending model (through "Kreditbee", owned by Group entity, FTSPL) with majority of credit underwriting process right from sourcing of loans to collections and recoveries performed digitally over in-house technology platform. This enables the company to achieve scalability in business at a faster pace with well-defined risk and rule engines continuously monitoring asset quality metrics. With app based lending and turnaround time (TAT) (from application to disbursement) of around 20 minutes, the company has garnered a large borrower base comprising predominantly of younger borrowers (~28 years).

Weakness

Moderation in profitability indicators

FPL commenced its operations in May 2016 and turned profitable in FY2019 with consolidated profits (PAT) of Rs.41.7 Cr. which rose to Rs.134.2 Cr. in FY2020 on the back of strong disbursements of Rs.7324.1 Cr. for FY2020 (FY2019: Rs.1609.3 Cr.). For FY2021, the consolidated earnings profile was impacted due to pandemic stress with losses of Rs.100.6 Cr. on account of sharp decline in processing and service fees (Kreditbee Platform) to Rs.162.8 Cr. from Rs.560.2 Cr. on the back of lower disbursements of Rs.2133.6 Cr., partially offset by cost saving measures undertaken which led to reduction in operating expenses.

On a standalone basis, KSPL's NIM moderated to 10.04 % during FY2021 from 23.3 % for FY2020 on account of decline in disbursements leading to lower interest income. ROAA declined to 2.65% as on March 31, 2021 from 4.37% as on March 31, 2020 on account of high base effect during FY2020 as the profitability dipped marginally.

Acuité believes that KSPL'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.

Moderate scale of operations and asset quality a monitorable

KSPL commenced its operations in May 2017 in unsecured personal loan segment and currently caters to salaried and self-employed individuals. The AUM stood at Rs.660.5 Cr. as on June 30,2021 (Rs.652.4 Cr. as on March 31,2021 and Rs.957.5Cr. as on March 31,2020). The portfolio declined on account of lower disbursements of Rs.1386.3 Cr. in FY2021 (FY2020: Rs.6159.3 Cr.) due to pandemic stress coupled with cautious approach adopted by the management to discontinue ultra-short tenor loan product and expand its relatively longer tenor loans evident from the share of such loans growing to 57 % of AUM as on March 31,2021 (FY2020:48 %) which is expected to support growth in AUM. KSPL asset quality witnessed deterioration with GNPA at 7.22% as on March 2021 (FY2020: 3.59%) owing to pandemic-related stress and niche customer profile. Further, write offs as percentage of disbursements for FY2021 jumped to 7.7% (FY2020: 2.8%). However, since inception, it stood 3.3% till FY2021.

Acuité notes that collection capabilities built over time with in-house team of around 590 staff and tie up with third party agencies is expected to further strengthen collections mechanism. Nonetheless, 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.

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. Though the experience of the management and the strong board composition has successfully led the group to become PAT positive in just over 2 years and reserve positive in 2.5 years of commencing operations, owing to the Covid-19 pandemic induced stress, the disbursements sharply declined and credit costs were high in FY21, leading to losses for the group in FY 2021 and also for Q1 FY2022. Hence the sustained performance and stability of the business model remains to be seen.

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. Acuité understands that the company is frequently conducting tech audit to keep a track of any potential risk. Furthermore, the company has availed a cyber-insurance policy to meet any unforeseen liability arising on the tech front. Additionally, the company is also exposed to evolving regulatory developments given that the fintech business model is at nascent stage.

ESG Factors Relevant for Rating

KSPL 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, vigil mechanism 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 3 independent directors out of a total of 6 directors. All the three members

of the Audit Committee are Non - Executive Directors with majority of them being Independent Directors. KSPL 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. Further, KSPL has also constituted an IT strategy committee to ensure adequate control over issues like cyber security and data privacy. KSPL provides personal loan, salary advance loan and online purchase loans with a focus on the young working class of India. KSPL aims at making credit highly accessible to the salaried and self-employed segment through adoption of technology. Till date, KSPL has upgraded more than 1 million customers from NTC (New to Credit) to a bureau score, thereby making them bankable customers. KSPL supports community development through CSR projects mainly aimed at promotion of education, eradication of hunger, environmental sustainability, protection of national heritage and culture among other causes.

Rating Sensitivity

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

Material Covenants

KSPL 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 October 05,2021, 'the Company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity Position: Adequate

KSPL's liquidity profile as on June 30,2021 is well matched with no negative cumulative mismatches upto one year bucket. As on September 30,2021, cash and liquid investments for the company stood at Rs.166.30 Cr. with debt obligations for the next six months ended March 2022 at Rs.193.22 Cr. Average collection efficiency has been in the range of 91%-93% since March 2021. At consolidated level, cash and liquid investments stood at Rs.265 Cr. with debt obligations for the next six months ended March 2022 at Rs.193.22 Cr.

Outlook: Stable

Acuité believes that FPL will maintain 'Stable' outlook over the near to medium term on account of healthy capital position and support from marquee investors. The outlook may be revised to 'Positive' in case FPL 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

Particulars	Unit	FY2021 (Actual)	FY2020 (Actual)
Total Assets	Rs. Cr.	1,021.29	1,094.88
Total Income (Net of Interest	Rs. Cr.	162.48	324.92

Expense)			
PAT	Rs. Cr.	28.02	31.77
Net Worth	Rs. Cr.	537.50	296.89
Return on Average Assets (RoAA)	(%)	2.65	4.37
Return on Average Net Worth (RoNW)	(%)	6.72	12.08
Total Debt/Tangible Net Worth (Gearing)	Times	0.87	2.64
Gross NPA	(%)	7.22	3.59
Net NPA	(%)	2.00	0.99

Ratios as per Acuité calculations

Key Financials - Consolidated

Particulars	Unit	FY2021 (Actual)	FY2020 (Actual)
Total Assets	Rs. Cr.	1250.10	1441.69
Total Income (Net of Interest Expense)	Rs. Cr.	240.91	717.47
PAT	Rs. Cr.	-100.57	134.18
Net Worth	Rs. Cr.	696.58	477.00
Return on Average Assets (RoAA)	(%)	-7.47	13.78
Return on Average Net Worth (RoNW)	(%)	-17.14	32.91
Total Debt/Tangible Net Worth (Gearing)	Times	0.67	1.66
Gross NPAs	(%)	-	-
Net NPAs	(%)	-	-

Ratios as per Acuité calculations

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

Infomerics Ratings, vide its press release dated August 16, 2021 had denoted the rating to Krazybee Services Private Limited (KSPL) as 'IVR BB+; Issuer Not Cooperating' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Commercial Paper: <https://www.acuite.in/view-rating-criteria-54.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.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>

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
29 Oct 2021	Proposed Commercial Paper Program	Short Term	75.00	ACUITE A2+ (Assigned)
	Proposed Term Loan	Long Term	185.00	ACUITE BBB+ Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	15.00	ACUITE BBB+ Stable (Reaffirmed)
07 Oct 2021	Proposed Term Loan	Long Term	200.00	ACUITE BBB+ 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 Term Loan	Not Applicable	Not Applicable	Not Applicable	185.00	ACUITE BBB+ Stable Reaffirmed
Not Applicable	Proposed Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A2+ Reaffirmed
Yes Bank Ltd	Working Capital Demand Loan (WC DL)	03-08-2021	Not Applicable	Not Applicable	15.00	ACUITE BBB+ Stable Reaffirmed
Not Applicable	Proposed Non Convertible Debentures	18-06-2021	Not Applicable	19-09-2022	50.00	PP-MLD ACUITE BBB+ 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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