

InCred Financial Services Limited
(Formerly known as Visu Leasing Finance Private Limited)

June 12, 2020

Ratings

Instruments/Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debentures	525 (Rs. Five Hundred and twenty five crore only)	CARE A; Negative [Single A; Outlook: Negative]	Rating reaffirmed and outlook revised from Stable to Negative
Long term Bank Lines	1,200 (Rs. One Thousand two Hundred crore only)	CARE A; Negative [Single A; Outlook: Negative]	Rating reaffirmed and outlook revised from Stable to Negative
Commercial Paper	250 (Two Hundred and Fifty Crore only)	CARE A1 [A One]	Rating reaffirmed
Secured Redeemable Principal Protected – Market Linked Non-Convertible Debenture (PP-ML-NCD)	200 (Rs. Two Hundred Crore only)	CARE PP-MLD A; Negative [PP-MLD Single A; Outlook: Negative]	Rating reaffirmed and outlook revised from Stable to Negative

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the Long term debt issue and Commercial paper issue of InCred Financial Services Limited (IFSL) factors in the extensive experience of IFSL's promoter and management team, continued healthy capitalization level, diversified loan portfolio and low gearing post infusion of capital during April 2019, strong analytics driven system for lending operations and diversified loan portfolio of the company.

The ratings are constrained on account of limited track record of operations, lower than projected scale up of business on account of tightened liquidity conditions in the market resulting in subdued profitability, moderate seasoning of the loan book and moderation in asset quality parameters amidst Covid-19 lockdown.

Going forward the profitability, liquidity, asset quality and collection metrics of the company will be key monitorables.

Rating Sensitivities

Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Inability to raise substantial resources, both debt and equity, for funding business needs and maintaining adequate liquidity.
- Deterioration in asset quality parameters with Net NPA to Tangible Network exceeding 10%
- Inability to raise profitability further with losses in any of the next two quarters.

Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Material improvement in the liquidity profile of the company with diversified borrowing base.
- Sustained improvement in profitability parameters with ROTA of more than 1%

Outlook: Negative

The revision in outlook to 'Negative' is mainly on account of moderation in liquidity profile due to difficulty faced by the company in raising resources and exposure to vulnerable asset classes such as Personal Loans, Unsecured Business loans and MFI lending which are likely to impact IFSL's profitability, asset quality & collection metrics on the back of COVID-19 related disruption in economic activities. Given the slowdown in economic activities, consumer confidence is expected to be low, and with the prevailing uncertainty over the time it may take to rebound, the expected business and earning profile is likely to be under pressure. The outlook may be revised to Stable if the company manages to maintain stable asset quality parameters (in the Personal Loans, Unsecured Business loans segment, MFI lending), shore up its resource profile (both, debt & equity) and report adequate profitability parameters.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and management team

The InCred group is promoted by Mr. Bhupinder Singh (Founder and Chief Executive Officer (CEO)) and leads the operations of the Company. He has over two decades of experience in financial services industry. Prior to this venture, he was associated with Deutsche Bank as Head of Corporate Finance division and Co-Headed Fixed Income, Equities and

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Investment Banking divisions for Asia Pacific region. The Company's Board of Directors includes Mr. Bhupinder Singh, Mr. Rupa Vora, Mr. Girish Nadkarni, Mr. Antoinius Bruijinckx, Mr. Vivek Anand and Mr. Vivek Bansal (Group Chief Financial Officer (CFO)).

The Company has business heads for various verticals. The SME Finance Business vertical is headed by Mr. Saurabh Jhalaria who has over 18 years of experience of lending to corporate and SMEs at Deutsche Bank. The Education Loans and Two Wheeler Finance verticals are headed by Mr. Prashant Bhosale who has over 25 years of experience and co-founded HDFC Credila and Mr. Prithvi Chandrashekhar (Chief Risk Officer) who leads credit risk management & advanced analytics capabilities has served as the Global Head of Analytics at Experian and Risk Head at Capital One.

In addition to this, the group has Mr. Anshu Jain (currently President at Cantor Fitzgerald and former Co-CEO of Deutsche Bank from 2012 to 2015) who has vast experience in the financial services industry on the advisory board.

Healthy capitalization levels post infusion by institutional investors and low gearing levels

Post an initial equity commitment of Rs.558 crore during FY17 (refers to period from April 01 to March 31) by the promoters to build up the business, the Company raised Compulsorily Convertible Preference Shares (CCPS) of Rs.427 crore from institutional investors like FMO (the Netherlands Development Finance Company), Elevar Equity, Moore Strategic Ventures and Alpha Capital along with its associates resulting in tangible net worth of Rs.1,019 crore and capital adequacy ratio (CAR) of 47.3% (Tier I CAR: 46.9%) as on March 31, 2020. Also, the Company's borrowings decreased from Rs.1,253 crore in FY19 to Rs.1,163 crore in FY2020(P) due to tightening of funding scenario for NBFCs in general. As a result, its overall gearing stood at 1.14 times as on March 31, 2020 as compared to 2.15 times as on March 31, 2019.

Diversified loan portfolio

The group has diversified loan portfolio of Rs.2,038 crore as on March 31, 2020. The AUM mix consists of Secured School Financing (21.55%), Lending to Fls/Escrow backed lending (13.90%) and Supply Chain Financing (5.72%) under SME lending segment. Under the Retail loans segment, the company has Personal Loans (23.08%), Student Loans (16.79%), 2-Wheeler Loans (9.19%) and Unsecured Business Loans (9.76%). As compared to the previous quarter i.e December 31, 2019, the company saw a growth of 50% in Student loans segment, 4.33% growth in Personal loans segment and 3.03% growth in Secured School Financing segment, while it registered a de-growth of 39% in Unsecured Business loans segment, 8% in Lending to Fls/Escrow backed lending and 7% in Two-wheeler segment. Out of the total loan portfolio, 55% was unsecured while the remaining 45% is secured. Also, of the total AUM, 59% was retail whereas 41% was towards SME loans.

In line with RBI's regulatory package, the company has given the option to its borrowers to opt for moratorium and as on April 30, 2020, 43% of the Company's AUM (in terms of value) was under Moratorium.

Moderate funding profile

The Company's borrowing profile is largely dependent on borrowings from Banks/FI's (64% of total borrowings) and Bonds & Debentures (46% of total borrowings) as on March 31, 2020. We note that the Company has increased its share of borrowings through MLD issue since September 2019. Post September 2018, in line with the industry trend, the Company has faced challenges in raising fresh borrowings. As a result, total borrowings have declined from Rs.1,253 crore as on March 31, 2019 to Rs.1,163 crore as on March 31, 2020. The Company has undrawn lines of around Rs.216 crore in the form of Term loans (Out of this the company expects Rs.156 crore to be disbursed by 20th June) from various banks and has also applied for TRLTO to various banks to cover the likely liquidity gap as a result of lower collections in future.

Key Rating Weakness

Limited track record of operations and moderate seasoning of the loan portfolio

The Company under the new management started business in February 2017 and FY18 was the first full year of operation. The Company's net loan portfolio grew by 17% from Rs.1,745 crore in FY19 to Rs.2,038 crore in March 2020. Although, some of the products with shorter tenor like personal loans, Supply chain financing may have seen a credit cycle, the overall seasoning of the loan portfolio continues to be moderate and the steady state asset quality of the portfolio is yet to be seen.

Subdued profitability parameters

During FY20 (P), the Company had reported PAT of Rs.5 crore on total income of Rs.331 crore as per IND AS as compared to Rs.4 crore on a Total Income of Rs.291 crore during FY19. During FY20, the Company's profitability was largely impacted by higher opex of Rs.150 crore (Rs.124 crore in FY19) and Provisions of Rs.51 crore (Rs. 24 crore in FY19). The COVID related provisioning is expected to increase the cost in FY21. As such, with lower income levels amidst COVID related lockdown and elevated cost structure, it is likely that the company's profit shall remain suppressed for FY21.

Moderation in asset quality parameters

As on March 31, 2020 the company reported Gross NPA of 2.80%, Net NPA of 1.12% and Net NPA to Tangible Net worth of 2.27% as compared to Gross NPA of 1.12%, Net NPA of 0.73% and Net NPA to Tangible Net worth of 2.10% as on March 31, 2019. The slippages were mainly in the Personal Loans, Unsecured Business loans and Supply chain financing business.

Going forward, in the current challenging environment the Company' plans of further scaling up its operations, maintaining asset quality of the loan portfolio will be a key rating sensitivity.

Deterioration in liquidity profile of the company

As on May 31, 2020, the Company has debt obligations amounting to Rs.295 crore falling due in the next 3 months (i.e June, July and August) against which it had Cash and Bank balance of Rs.93 crore and Liquid Investments of Rs.55 crore and unutilized bank lines of Rs.166 crore as on June 07, 2020. The Company's liquidity profile is marked with tightly matched accruals and liquidity buffers to cover debt repayments and interest due in the next 3 months. The company had an overall collection efficiency of 59% i.e ~Rs.91 crore during the month of April 2020 and company expects collections to be on similar levels in the coming month to cover the liquidity gaps.

Analytical approach: Standalone

Liquidity Profile: Moderate

As on June 07, 2020, IFSL's liquidity profile is backed by Cash and Bank balance of Rs.93 crore, Liquid Investments of Rs.55 crore and unutilized bank lines of Rs.166 crore. Currently, the liquidity profile of the company is marked by tightly matched accruals and liquidity buffers to repayment obligations. As on May 31, 2020, the Company has debt obligations amounting to Rs.295 crore falling due in the next 3 months (i.e June, July and August), with bulk payment in the month of June. The repayment against this is expected to be made partly through, existing cash & liquid investments, monthly collections (Collection efficiency of 89% for March 2020 and 59% for April 2020) and by drawing through the unutilized bank lines.

Applicable Criteria:

[Rating Methodology-Non Banking Finance Companies \(NBFC\)](#)

[Rating of Short term instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Financial ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[CARE Policy on Default Recognition](#)

About the Company

The InCred Finance Group lends through its new age financial services technology platform "InCred- credit for InCredible India" that leverages technology and data-science to make lending quick and easy. The group acquired NBFC 'Visu Leasing and Finance Private Limited (VLFL)' which was incorporated on January 08, 1991 and received certificate of registration from RBI on August 20, 2000. Post-acquisition, the InCred group/new promoters raised equity capital of around Rs.500 crore and started its lending operations from February, 2017. The name of the company was changed to 'InCred Financial Services Limited' w.e.f. November 01, 2018.

The company has around 4 years of operations and its Asset Under Management (AUM) as on March 31, 2020 stood at Rs.2,067 crore. The group typically offers loan products in retail and SME segment constituting mix of Secured School Financing (21.55%), Lending to FIs/Escrow backed lending (13.90%) and Supply Chain Financing (5.72%) under SME lending segment. Under the Retail loans segment, the company has Personal Loans (23.08%), Student Loans (16.79%), 2-Wheeler Loans (9.19%) and Unsecured Business Loans (9.76%). As on March 31, 2020, the business is spread across India with 26 branches situated across 10 states with an employee base of 827 employees spread across various functions.

Brief Financials:

Particulars	(Rs. Crore)	
	FY19 (A)	FY20 (P)
Total Income	291	331
PAT	4	5
Interest Coverage (times)	1.04	1.06
Total Assets [^]	1,866	2,220
Net NPA (%)	0.73	1.12
ROTA (%)	0.22	0.24

A: Audited P: Provisional; ^: Not adjusted for Intangible Assets & Deferred tax Assets (DTA); *: As per IND AS

Note: All figures stated for period ending March 31, 2020 are Provisional in nature as the company is yet to report Audited figures.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities:

Instrument Type	ISIN No	Date Of Maturity	Amount (Rs. Cr)*	Coupon (%)	Existing Rating
Non-Convertible Debenture (NCD)	INE945W07035	26-Apr-21	75	10.25%	CARE A; Negative
Proposed Non-Convertible Debenture (NCD)	-	-	450	-	CARE A; Negative
Total			525		CARE A; Negative
Secured Redeemable Principal Protected – Market Linked Non-Convertible Debenture (PP-ML-NCD)	INE945W07084	30-Sep-21	15.80	11.00%	CARE A; Negative
Secured Redeemable Principal Protected – Market Linked Non-Convertible Debenture (PP-ML-NCD)	INE945W07092	18-Jan-21	15.60	11.00%	CARE A; Negative
Secured Redeemable Principal Protected – Market Linked Non-Convertible Debenture (PP-ML-NCD)	INE945W07100	03-Feb-21	19.22	10.90%	CARE A; Negative
Secured Redeemable Principal Protected – Market Linked Non-Convertible Debenture (PP-ML-NCD)	INE945W07118	14-Dec-21	34.9	11.00%	CARE A; Negative
Secured Redeemable Principal Protected – Market Linked Non-Convertible Debenture (PP-ML-NCD)	INE945W07126	18-Feb-22	40.0	10.90%	CARE A; Negative
Proposed Secured Redeemable Principal Protected – Market Linked Non-Convertible Debenture (PP-ML-NCD)	-	-	74.5	-	CARE A; Negative
Total			200		
LT-Bank Facility-Term Loan	-	-	741.75	-	CARE A; Negative
LT-Bank Facility-Proposed	-	-	458.25	-	CARE A; Negative
Total			1200		
Commercial Paper	-	-	-	-	CARE A2+ (A Two Plus)
Proposed Commercial Paper	-	-	250	-	CARE A2+ (A Two Plus)
Total			250		

*as on June 11, 2020

Annexure-2: Rating History of last three years

Sr. No	Name of Instrument/ Bank facilities	Current Ratings			Rating History			
		Type	Rated Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020- 2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1	Commercial Paper	ST	250	CARE A1	-	1) CARE A1 (28-Jan-20) 2) CARE A1+ (27-Sep-19) 3) CARE A1+ (05-Sep-19) 4) CARE A1 (02-Apr-19)	-	1) CARE A1 (04-Dec-17)
2	Fund Based - LT – Term Loan	LT	1,200	CARE A; Negative	-	1) CARE A; Stable (05-Sep-19) 2) CARE A; Stable (02-Apr-19)	1) CARE A; Stable (31-Jul-18)	1) CARE A; Stable (26-Feb-18) 2) CARE A; Stable (04-Dec-17)
3	Debentures – Non Convertible Debentures	LT	250	CARE A; Negative	-	1) CARE A; Stable (05-Sep-19) 2) CARE A; Stable (02-Apr-19)	1) CARE A; Stable (27-Apr-18)	1) CARE A; Stable (26-Feb-18)
4	Debentures – Non Convertible Debentures	LT	75	CARE A; Negative	-	1) CARE A; Stable (05-Sep-19) 2) CARE A; Stable (02-Apr-19)	1) CARE A; Stable (27-Apr-18)	-
5	Debentures – Non Convertible Debentures	LT	200	CARE A; Negative	-	1) CARE A; Stable (05-Sep-19) 2) CARE A; Stable (02-Apr-19)	1) CARE A; Stable (31-Jul-18)	-
6	Debentures – Market Linked Debentures	LT	100	CARE PP-MLD A; Negative	-	1) CARE PP- MLD A (27-Sep-2019)	-	-
7	Debentures – Market Linked Debentures	LT	100	CARE PP-MLD A; Negative	-	1) CARE PP- MLD A (20-Feb-20)	-	-

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications

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