Quadrillion Finance Private Limited

September 01, 2021

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Non-Convertible Debentures	50.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Total Long Term Instruments	**50.00 (Rs. Fifty Crore Only)**		
Commercial Paper	25.00	CARE A3 (A Three)	Assigned
Total Short Term Instruments	**25.00 (Rs. Twenty-Five Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Non-Convertible Debentures and proposed Commercial Paper issuances of Quadrillion Finance Private Limited (QFPL) derive comfort from its adequate capital base and the group's ability to attract capital funding from a mix of investors, which was recently demonstrated in June 2021, when the parent company raised Rs. 110 crore in the latest round of capital funding from its existing investor, out of which around Rs.75 crore was down-streamed to QFPL. The rating also factors business potential of QFPL's technology-led risk assessment model with most of the credit underwriting processes performed digitally with minimum manual intervention, which has enabled it to scale up its loan portfolio swiftly in a relatively lesser time frame, even amidst the pandemic period. Furthermore, QFPL has a highly scalable business model considering its focus on positioning itself as a payments tool provider. Although QFPL has been able to keep its asset quality metrics under check, supported by a strong collection mechanism, the robustness of the credit engine is yet to be established for a longer time frame, considering, being a startup, the business model it still evolving. The ratings are constrained by its limited operational history, low profitability and a concentrated resource profile.

Going forward, QFPL's ability to increase its operational scale while maintaining asset quality and improve its capitalization, profitability and liability relationships will remain critical parameters for its rating.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained improvement in consolidated profitability with ROTA of at least 2%
- Maintenance of healthy collection efficiencies and asset quality metrics/ratios including Gross Non-Performing Assets Ratio (GNPA) and proportion of write-offs
- Continuous scale-up in the loan portfolio

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Expected/Visible signs of stress in asset quality with significant/consistent deterioration in metrics including GNPA, write-offs and collection efficiencies
- Decline in capital levels or deterioration in leverage with overall gearing of more than 4 times
- Inability to establish liability relationships at competitive rates

Detailed description of the key rating drivers

Key Rating Strengths

Adequate Capital Base and Moderate Gearing: Garagepreneurs Internet Pvt Ltd (GIPL), the technology parent holds 100% stake in QFPL. It raised close to Rs. 110 crores in June 2021 in the latest series by issuing Compulsorily Convertible Debentures, from its existing Japanese investor Gunosy Inc. Out of this, around Rs. 75 crore was down-streamed into QFPL. Post this transaction, the tangible net worth of QFPL stood at around Rs. 123 crore, while the consolidated tangible net worth of GIPL stood at Rs. 172 crore as on June 30, 2021.

Accordingly, QFPL's Capital Adequacy ratio improved from 27.1% as on March 31, 2021 to 45.1% as on June 30, 2021; and the overall debt equity ratio improved from 3.0x as on March 31, 2021 to 1.2x as on June 30, 2021.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

A healthy capital base acts as a cushion for a startup entity and also enables them to absorb the elevated operating costs or any other unexpected losses which may arise due to an evolving business model. CARE Ratings estimates that the current capital levels shall act as an adequate cushion and support the growth in its loan portfolio in the medium term.

Growth Potential Led by Technology-led Assessment Model and Positioning in the Credit Card Space: QFPL has a highly scalable business model, enabled by a digital lending process through its mobile application viz. slice, with the entire credit risk underwriting process – origination, risk assessment and disbursement performed digitally. Minimal manual intervention provides the company with the ability to grow its loan portfolio at a faster pace with asset quality metrics being monitored by the algorithms.
QFPL's product basket includes slice card, credit through Bank Transfer or Paytm and electronic gift voucher - all covered within an overall credit limit, assigned for a user. After its introduction in May 2019, slice card has now become the flagship product of the company.
The slice card product allows it to compete with banks with substantial competitive advantages in the form of quicker on-boarding, ease of use, user engagement and offers and rewards in the nature of instant cashbacks. The company's customer profile is composed of digitally-savvy younger demographics, who can utilise the credit limits almost instantly for any transaction – POS (Point of sale) or online purchase, not just as a credit, but also as a payment tool. Consequently, technology provides a competitive edge over traditional banks, considering the process – from application to approval taking around 2-3 hours or even lesser in case of premium salaried users.

CARE Ratings notes that while technology has demonstrated its capacity for easy growth, the ability of the machine learning algorithms to keep a check on quality of the loans being sourced is still evolving and remains to be proved. Also, while the business model is highly scalable, sustenance of the current user base as well as improvement in the market share amidst high competition is yet to be seen.

Asset Quality Better than Peers as Evidenced by Robust Collections: Since FY21, QFPL has adopted a policy of Non-Performing Assets (NPA) recognition based on 90+ DPD with 75% provision coverage ratio (PCR) for on-book bad loans and 100% for off-book bad loans, and with write-offs at 180+ DPD. Additionally, it provides for 1.5% provision on standard assets and interest income. The Gross NPA ratio stood at 1.62% as at June 30, 2021 and at 1.01% as at March 31, 2021.
Considering the shorter tenure nature of the advances resulting in its faster amortization, CARE Ratings has also considered cumulative write-offs plus 90+ DPD loans as a percentage of cumulative disbursements for assessing and comparing its asset quality across peers, which in case of QFPL stood as low as 0.86% as on June 30, 2021. Monthly overall collection efficiency averaged to around 96% for last 24 months ended June 2021, despite the two waves of Covid-19, on the back of a strong collection team and automated processes.
While the company explores its growth potential into the salaried segment (which might result into increased ticket sizes) while altering its product mix to expand the user base, maintenance of the asset quality shall remain a key rating parameter. Going ahead, CARE Ratings will continue to monitor the economic situation as well as asset quality metrics closely.

Key Rating Weaknesses
Limited Operational History and Small size of Loan Book: QFPL has an operational track record of around 2.5 years, while the parent GIPL has been operating the technology led model for credit assessment of unsecured retail credit for other NBFC partners through FLDG model since 2016. The AUM grew at a CAGR of 135% over last 3 years to Rs. 298 crore as on March 31, 2021 and then by 16% further to Rs. 355 crore as on June 30, 2021. Although owing to its short-term nature, the portfolio has churned multiple times, the ability to maintain the quality of credit underwriting over a longer tenure is yet to be established as a result of limited track record. CARE Ratings observes that credit risk models based on data analytics and machine learning will continuously evolve both with time as well as with growth in portfolio. Subsequently, the robustness of these models will only be ascertained over a period of time.

Yet to Report Profitability at Consolidated Level Led by High Operational Costs, Being in Early Stages of Operations: QFPL reported Rs. 38 lacs of net profits for FY21. However, at a consolidated level, the parent company GIPL has not yet turned profitable on an annual basis. It incurred net losses of Rs. 1.2 and Rs. 2.1 crore respectively in FY20 and FY21. Barring certain non-cash and exceptional expenses (ESOP in FY20 and moratorium provisioning in FY21), it would have achieved some profitability. However, it reported a Pre-provisioning profit of around Rs. 11 crore for FY21 as per consolidated provisional financials.
As the group is currently in the growth phase and expects to increase digital marketing in order to expand its user base, profitability is expected to improve only from FY23 onwards.

Concentrated Resource Profile and High Cost of Funding: Being in the initial years of its operations, the resource profile of QFPL is concentrated with high dependence on term loans from NBFCs/FIs (constituting 88% of outstanding debt as on June

30, 2021), limited liability relationships with banks and a few private issuances of unlisted NCDs (constituting 12% of the outstanding debt as on June 30, 2021).The top 3 lenders accounted for almost 40% and top 5 lenders almost 53% of total outstanding debt as on June 30, 2021.While the company has managed to bring down its cost of funding by around 150-200 bps over the last one year, the average cost of funding still continues to be high and will be closely monitored

Liquidity: Adequate
QFPL's asset liability maturity profile reflected cumulative surplus position across all maturity buckets up to 1 year as on Jun 30, 2021. The company has principal debt repayments of Rs. 142 crore up to one year against which the contractual inflows from advances stood at Rs. 252 crore and cash and bank balances stood at Rs.21 crore. The liquidity coverage ratio stood at 15% as on June 30, 2021. The favourable liquidity profile is driven by the short-term nature of loan book (average tenor of around 4 months) and medium-term borrowings of around 12 months and will likely remain adequate even in an adverse scenario as per the estimates of CARE Ratings.

Analytical approach:
CARE has taken a standalone view for assessing the financial position of QFPL. Additionally, CARE has also factored in financial and technological support from its parent entity, Garagepreneurs Internet Private Limited (GIPL) including usage of the brand "slice" as well as maintenance of technology platform which forms the base for end-to-end credit process.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Notching by factoring linkages in ratings
Financial ratios – Financial sector
Rating Methodology- Non-Banking Finance Companies
Criteria for Short Term Instruments

About the Company
Quadrillion Finance Pvt. Ltd. (QFPL), is a Bengaluru based NBFC (Non-deposit accepting and non-systemically important), engaged in the business of unsecured retail financing to salaried class and student segment, through the mobile application named 'slice'. Established in Sept 2018, it is a wholly owned subsidiary of Garagepreneurs Internet Pvt. Ltd. (GIPL). GIPL was founded by Mr. Rajan Bajaj in 2015. It initially used to acquire customers and allow its technology platform to be used for disbursements through FLDG arrangement with other partner NBFCs. With incorporation of its own NBFC – QFPL, GIPL provides capital support to the NBFC and major chunk of lending business is carried out through it.
QFPL has a highly scalable business model, enabled by use of automation and deployment of technology for underwriting & risk management. Majority of the limits for the salaried segment are decided by its credit engine, based on predefined criteria. The product profile includes slice card, credit through Bank Transfer or Paytm and electronic gift voucher - all covered within an overall credit limit, assigned for a user.
Since it began operations in January 2016, the group has cumulatively disbursed around Rs. 2,122 crore till June 2021, and is having an AUM of Rs. 355 crore as on June 30, 2021.

Brief Financials: Quadrillion Finance Pvt Ltd (Rs. crore)	FY20 (A)	FY21 (A)
Total Income	12.01	38.81
PAT	0.65	0.38
Interest coverage (times)	1.35	1.05
Total Assets (tangible)	59.83	191.06
Net NPA (based on 90+dpd) (%)	1.76	0.14
ROTA (%)	2.02	0.31

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Not available

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	NA*	July 23, 2021	15% p.a.	January 31, 2023	25.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	25.00	CARE BBB-; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7-364 days	25.00	CARE A3

*ISIN not yet available

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	100.00	CARE BBB-; Stable	1)CARE BBB-; Stable (19-Aug-21)	-	-	-
2.	Commercial Paper-Commercial Paper (Standalone)	ST	25.00	CARE A3	-	-	-	-
3.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB-; Stable	-	-	-	-

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Debentures-Non-Convertible Debentures	Simple

Annexure-4: Bank Lender Details

Click here to view Bank Lender Details

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

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-98330 70317
Email ID – mradul.mishra@careratings.com

Analyst Contact
Ms. Janet Thomas
Contact no.- +91 98331 61236
Email ID- janet.thomas@careratings.com

Mr. Sudhakar Prakasam
Contact no.- +91 94422 28580
Email ID- p.sudhakar@careratings.com

Relationship Contact
Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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