

True Credits Private Limited

September 08, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|---------------------------|------------------|---------------------|---------------|
| Long-term bank facilities | 200.00 | CARE BBB-; Stable | Reaffirmed |
| Commercial paper | 40.00 | CARE A3 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings for True Credits Private Limited (TCPL) derives strength from its healthy capitalisation profile supported by regular equity infusion from its promoters, and adequate liquidity position. The ratings also derive strength from its comfortable profitability profile driven by high yields generated on its short-term unsecured personal loan segment.

The ratings, however, remain constrained on account of risks associated with the unsecured nature of high yielding retail loans provided to the borrowers, albeit granular nature of the same provides comfort to the asset quality profile. CARE Ratings Limited (CARE Ratings) further notes that digital lending space is an evolving space with increased regulatory scrutiny. Also, TCPL's concentrated resource profile, albeit improving with lending mainly from non-banking finance companies (NBFCs) acts as a constraining factor.

Rating sensitivities: Factors likely to lead to rating actions

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

- Significant scaling up of the loan book with asset quality remaining under control.
- Diversification of the resource profile.

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

- Any adverse regulatory development in the fintech lending space.
- Significant rise in the credit costs, leading to deterioration in profitability.

Analytical approach: Standalone

Outlook: Stable

The stable outlook factors in CARE Ratings' expectation that TCPL will be able to grow its scale of operations while maintaining adequate profitability.

Detailed description of the key rating drivers

Key strengths

Comfortable capitalisation levels

TCPL is a wholly-owned subsidiary of M/s Balancehero India Private Limited, which in turn is wholly owned by M/s Balancehero Co. Limited based at South Korea. Charlie Lee, former CEO at Access Mobile and former Head of Asia Pacific Business at Real Networks, is the promoter and co-founder of Balancehero Co. Limited, which has been raising debt at the holding company level in South Korea and infusing it in the form of equity in TCPL, through Balancehero India Private Limited. Consequently, tangible net worth (TNW) has been increasing y-o-y basis from ₹134 crore as on March 31, 2022, to ₹266 crore as on June 30, 2023. Capital adequacy profile of the company remains comfortable with the overall capital adequacy ratio (CAR) of 68% as on March 31, 2023, up from 45% as on March 31, 2022. The gearing also remained comfortable at 0.7x, as on March 31, 2023. Balancehero

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

India Private Limited infused ₹80 crore in TCPL in the last financial year and ₹30 crore in the current financial year till May 31, 2023. Going forward, CARE Ratings expects the promoters to continue infusing equity in the company.

Moderate asset quality

TCPL provides retail unsecured loans carrying an average ticket size of ₹30,000 (around ₹6,000 as on March 31, 2022) to salaried and self-employed individuals with average tenor of 6 months (around 3 months as on March 31, 2022). It charges interest rate based on risk-based pricing model. The collection process is managed internally till 30+DPD. After 30 days DPD, the case is transferred to external agency for collection. Headline asset quality metrics remains good with gross NPA (GNPA) ratio of 0.20% as on June 30, 2023, recognised on 180d+ basis. Healthy asset quality metrics were driven by the company's conservative provisioning policy wherein the company makes 100% provisioning for the NPAs and writes-off once NPA on quarterly basis. Due to this, the credit cost remained high at 44% in FY23. CARE Ratings notes that the rates charged by the company on its loan products provide sufficient buffer to absorb credit losses.

High profitability

TCPL reported disbursements of ₹1,746.14 crore (including ₹276.68 crore from off book lending) and total income of ₹370.65 crore for FY23 (refers to the period April 1 to March 31), as against a total income of ₹224.72 crore in FY22, on disbursements of ₹894.6 crore. The company's profitability is on an increasing trend with a return on total assets (ROTA) of 4.33% for FY23, as compared with 3.95% as on March 31, 2022. ROTA of 4.33% is driven by high interest spreads and moderation in operating expenses ratio with the company achieving economies of scale. ROTA further increased to 6.59% for Q1FY24. Going forward, the company plans to reduce yields and increase the average tenor as well as average ticket size of loan. CARE Ratings continues to monitor the ability of the company to maintain its profitability profile.

Key weaknesses**Low track record, albeit improving in digital lending segment**

The company got NBFC license from the Reserve Bank of India (RBI) in October 2019 and started disbursing unsecured personal loans in January 2020. The company is yet to establish track record with most of the disbursements happening in the last two years only. However, CARE Ratings notes that the company lends short term with average tenure of six months, and thus the loan book has completed few cycles since inception. The loan book stands relatively modest at ₹323.35 crore, as on June 30, 2023, being in the form of small ticket size unsecured personal loans.

Concentrated resource profile

The company's borrowing profile remains concentrated with entire borrowing base in the form of term loans, NCDs and CPs from external NBFCs as on June 30, 2023. However, the company has received sanctions from two banks as well as some other new lenders in Q2FY24. Going forward, CARE Ratings expects the resource profile to further diversify across lenders.

Evolving regulatory space

Digital lending space is an evolving space with increased regulatory scrutiny. With first loss default guarantee (FLDG) capped at 5% in the form of fixed deposits, servers located in India, disclosure of annual percentage rate (APR), no collection of biometric data from the customers and presence of transparent grievance redressal policy, TCPL is broadly in compliance with the guidelines on digital lending of RBI. However, CARE Ratings notes that any adverse regulation may have an adverse impact on the company's operations.

Liquidity: Adequate

As on June 30, 2023, the company had adequate liquidity in the form of cash and bank balances worth ₹90.77 crore against debt repayments of ₹114.51 crore over the next three months. Also, as per the structural liquidity statement shared by the company, there were positive cumulative mismatches across all time buckets.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Non Banking Financial Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|--------------------------|--------------------|----------|--------------------------------------|
| Financial Services | Financial Services | Finance | Non Banking Financial Company (NBFC) |

TCPL was incorporated on September 05, 2017. Its group was initially started as a 'Mobile balance check' app. The company is a wholly-owned subsidiary of M/s Balancehero India Private Limited, which in turn is wholly owned by M/s Balancehero Co. Limited. Charlie Lee is the promoter and co-founder of Balancehero Co. Limited and Balancehero India Pvt Ltd. He was former CEO at Access Mobile and former Head of Asia Pacific Business at Real Networks. Vishal Bhatia is the managing director of TCPL. He has 17+ years of experience and has previously worked with PayU and Snapdeal.

TCPL secured NBFC license from RBI in October 2019. It is into the business of lending money in the form of personal loan to the individual borrowers. Lending is in the range of ₹1,000 – ₹100,000 per borrower with average ticket size of ₹30,000. TCPL is lending through App, operated by Balancehero India Private Limited, which is called the 'True Balance app'. It provides only short-term lending (maximum 6-month lending to any borrower) with interest rate based on risk-based pricing model. The company offers various lending products like cash loan, level up loan and welcome loan. Lending business is owned and housed under TCPL. The company uses digital lending channels for marketing. Around 46% are repeat customers. Social networking sites like Facebook and Google are used for placing advertisements of the different loans offered. SMS-based advertisements are sent to the target users.

| Brief Financials (₹ crore) | March 31, 2022(A) | March 31, 2023 (A) | Q1FY24(UA) |
|----------------------------|-------------------|--------------------|------------|
| Total operating income | 224.73 | 370.65 | 247.37 |
| PAT | 8.82 | 15.88 | 7.41 |
| Interest coverage (times) | 1.64 | 0.66 | 0.85 |
| Total assets | 321.80 | 411.02 | 488.63 |
| Net NPA (%) | 0.00 | 0.00 | 0.00 |
| ROTA (%) | 3.96 | 4.33 | 6.59 |

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|--|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Commercial paper-Commercial paper (Standalone) | | Proposed | | | 40.00 | CARE A3 |
| Fund-based - LT-Term loan | | Proposed | | | 200.00 | CARE BBB-; Stable |

Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|-------------------|---|--|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1 | Fund-based - LT-Term loan | LT* | 200.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (30-Jan-23) 2)CARE BBB-; Stable (26-Aug-22) | - | - |
| 2 | Commercial paper-Commercial paper (Standalone) | ST* | 40.00 | CARE A3 | - | 1)CARE A3 (30-Jan-23) | - | - |

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities : Not applicable

Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|--|------------------|
| 1 | Commercial paper-Commercial paper (Standalone) | Simple |
| 2 | Fund-based - LT-Term loan | Simple |

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

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

Contact us

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About us:

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