Loantap Credit Products Private Limited (Revised)

September 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	190.00	CARE BBB-; Negative	Reaffirmed; Outlook revised from Stable
Non-Convertible Debentures*	5.46 (Reduced from 25.00)	CARE BBB-; Negative	Reaffirmed; Outlook revised from Stable
Commercial Paper	30.00	CARE A3	Reaffirmed

*The reduction in facilities from Rs. 25 crore to Rs. 5.46 crore for non-convertible debentures is due to it being fully matured as on date. There are no dues o/s against the same.
Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and other debt instruments of Loantap Credit Products Private Limited (LCPPL) derive strength from its adequate capital base led by capital funding from a mix of investors including institutional investors over the past years. Although, this base has been reducing due to the losses reported by the company. The ratings remain supported by the technology-led risk assessment business model with digitization of most of the credit underwriting processes. This provided the ability to quickly scale-up its loan portfolio; although the strength of credit assessment with minimal manual intervention will be visible only over a period of time.

Further, The ratings remain constrained on account of its moderate asset quality metrics which have increased post the RBI directive of IRACP (Income Recognition, Asset Classification and Provisions) norms and also with lower recoveries from the restructured assets which continue to pressurize its earnings profile. LCPPL's still-evolving business model with a transition to shorter tenure loans, limited track record and concentration in the resource profile with relatively higher cost of funds remains key rating constraints. Moreover, with the Digital Lending Guidelines (DLG) circular dated June 08, 2023 leading to reduction of the FLDG (First Loss Default Guarantee) for the off-book arrangements for these fintech players remains an industry wide scenario whose full impact is yet to be seen.

Rating sensitivities: Factors likely to lead to rating actions

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

- Sustained improvement in profitability with ROTA of at least 2%
- Improvement in asset quality metrics/ratios including GNPA (90+ DPD) as well as write-offs along with improvement in collection efficiencies
- Exhibition of stable growth with continuous scale-up in the loan portfolio
- Diversification of resource profile along with tapping of funds at competitive rates from lenders.

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

- Expected/Visible signs of stress in its asset quality with significant/consistent deterioration in metrics with Net NPA/Networth exceeding 15%
- Decline in capital levels or deterioration in leverage with overall gearing of more than 4 times
- Ability to maintain short term borrowings (including commercial paper) at lower levels.
- Inability to infuse capital at consolidated and standalone levels as per expected timelines.

Analytical approach

CARE Ratings has analyzed the standalone profile of LCPPL. CARE Ratings has also factored in financial and technological support from its parent entity, Loantap Financial Technologies Private Limited (LFTPL).

Outlook: Negative

The outlook has been revised to 'Negative' from 'Stable' on account of delay in capital infusion expected of Rs. 150 crore during FY23 along with losses reported at the consolidated and standalone levels. CARE Ratings would monitor the expected infusion of Rs. 100 crore (reduced from initial expectation of Rs. 150 crore in FY23) in FY24 i.e. Q2FY24; Rs. 20 crore & Q3FY24: Rs. 80 crore in relation to the timelines as given by the management. The rating maybe revised downwards in case the envisaged capital doesn't materialize as per the quantum and the timelines indicated by the management or with any further deterioration in profitability & asset quality. The outlook maybe revised to stable on fruitification of the equity and improvement in profitability & asset quality parameters both at the consolidated and standalone levels.

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

Detailed description of the key rating drivers

Key Strengths

Sufficient Capital Base Supported by Funding From Investors Over the Years; however declining due to losses reported during FY23: Loantap Financial Technologies Private Limited (LFTPL), the parent company holds 99.74% stake in LCPPL (as on June 30, 2023). LFTPL has demonstrated its ability to attract investments by participating in five rounds of funding till January 31, 2020 and raising total funds to the tune of Rs.170.1 crore in its Series A and Series B fund from a mix of investors which include 3one4 Capital - an early stage venture capital firm based in Bangalore, India Quotient II - an early stage venture capital firm; Kae Capital & Kalysta Capital, Shunwei Ventures (Mauritius) Limited, Avaana Capital, Tuscan Ventures Private Limited. The same has been down-streamed into LCPPL in the form of equity and preference capital. Capital infusion remains steady as observed during regular intervals over FY17-FY20 (FY17: Rs. 1.64 crore, FY18: Rs. 7 crore, FY19: Rs. 40.59 crore, FY20: Rs. 72 crore). As on March 31,2023, the tangible net worth stood at Rs. 92.94 crore due to losses for the year which increased on account of higher write offs (March 31, 2022: Rs. 109.84 crore). The debt to equity ratio stood at 2.49x as on March 31, 2023 as against 2.47x as on March 31, 2022: 2.47x. Capital Adequacy Ratio remained comfortable at 31.92% as on Mar 31, 2023 (March 31, 2022: 34.29%).

Adequate capital cushions provide the required headroom to absorb high credit costs synonymous with most fintech companies. Higher capital buffers also improve the ability of the company to absorb its elevated operating costs during its evolving stages or any other unexpected losses which may arise led by unforeseen events as seen during the pandemic. The company had expected an infusion of Rs. 150 crore which got delayed during FY23 due to the market conditions. The company expects Rs. 20 crore to be infused by Q2FY24 and Rs. 80 crore by Q3FY24 (in tranches of Rs. 30 crore likely by October 2023 & Rs. 50 crore likely by December 2023). Going forward, LCPPL's ability to maintain the required capital cushion and infuse the stated capital as per expected timelines to support the growth & erosion of the networth would remain a key parameter for its ratings.

Technology-Led Business model with a focus to shift to shorter tenure loans: LCPPL has no branches and the lending process is entirely digital with a majority of its credit risk underwriting processes – origination, risk assessment and disbursement being digitally performed. Minimal manual intervention provides the company with the ability to grow its loan portfolio at a faster pace with asset quality metrics being largely monitored by the algorithms. The company has also introduced a new product named STRCL (Shorter Tenure Revolving Credit Line) for the kirana stores with an average tenure of 21 days and plans to focus on increasing disbursement share in this segment going forward. LCPPL largely competes with established banks in the personal loans segment with the company's borrower profile mainly leaning towards the digitally savvy younger demographics (around 59% are less than 35 years of age as on June 30, 2023) who require personal loans for home improvement, weddings, vacations, medical emergencies etc. Consequently, while technology provides a competitive edge over traditional banks for the company where the loan application to disbursal process takes less than 2 days, banks get an edge in the rates offered to the customers. Additionally, CARE Ratings notes that while technology has demonstrated its capacity for faster sourcing and disbursement, the ability of the self-learning algorithms to keep a check on the quality of the loans being sourced is still evolving and remains to be proved. Further, the traction of the new product introduced by the company remains to be established.

Experienced senior management team: The promoters of LCPPL have a vast experience in retail financing and technological environment. Mr. Satyam Kumar (CEO and co-founder) has over 20 years of experience in mortgage book building, collection, key account management and underwriting. Mr. Vikas Kumar (CTO) has over 20 years of experience in Technology and Online platform. He was a former co-founder of Brainvisa Technologies and SME Joinup. The promoters are exposed to multicultural and large team handling roles on funding and strategy fronts.

Key weaknesses

Stressed Asset Quality: LCPPL has adopted a policy of Non-Performing Assets (NPA) recognition based on 180+ DPD with 30% provision coverage ratio and write-off policy of 450+ DPD. However, CARE has considered NPA (based on 90+ DPD) for its assessment and comparison of asset quality across peers. Gross NPA ratio increased to 8.89% as on March 31 2023 as against 4.79% as on March 31, 2022. GNPA (%) [based on 90 + dpd] continues to remain on the higher side. This further increased to 10.13% as on June 30, 2023. As stated by the company, due to the moratorium for the restructured loans (Rs. 42.23 crore) being dispensed during September 2022 and their recoveries being not as expected, the GNPA (%) as per 90+ dpd stood higher for March 2023 & June 2023. The company has o/s otr (one-time restructuring) assets of Rs. 30.76 crore as on March 31, 2023, out of which 23% was in 90+ dpd. Net NPA to tangible networth stood at 16.73% as on March 31, 2023 as against 9.73% as on March 31, 2022 due to higher npa levels and losses reported during the year. Current Collection efficiency stood at 93% as on June 30, 2023. The company's ability to collect its arrears, decrease its NPAs and write-offs along with improving its overall collections will be closely monitored.

Moderate scale of operations & limited track record: LCPPL has around seven years of its business operations with a CAGR growth of 20% over FY19-FY23 with a loan portfolio tenure averaging in the range of 1.5 to 2.5 years. As a result, the quality of underwriting through different economic cycles is yet to be established inducing a level of uncertainty. Moreover, CARE Ratings observes that the company has been making foray into the STRCL which are relatively shorter tenure loans. AUM of STRCL also increased from Rs. 2.79 crore as on March 31, 2022 to Rs. 36.28 crore as on March 31, 2023 (June 30, 2023: Rs. 54.61 crore) The quality of sourcing and underwriting of the same is yet to be seen. Further, 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.

Moderate financial profile: LCPPL became profitable during FY20, however, due to higher write-offs during FY23, it reported loss of Rs. 12.45 crore as against profit of Rs. 1.87 crore during FY22. At the consolidated level (Prov.) also due to higher write-offs of Rs. 21.60 crore, losses of the company increased to Rs. (21.48) crore during FY23 as against profit of Rs. 0.69 crore. Thus, the profitability of the company has been fluctuating and volatile and the company is yet to showcase a consistent profitable performance, given an operational history of around seven years. CARE Ratings observes that due to the current stressed asset quality metrics and higher write-offs LCPPL's profitability would continue to remain under pressure in the medium term. However, we note that, the lower gearing levels of the company provide some support to its earnings.

The company expects to improve profitability by lower credit costs and through increase in other income at consolidated levels mainly driven by increase in distribution income generated from leads given to other companies and technology income from outsourcing the platform. The ability of the company to improve its profitability remains to be seen going forward and will be crucial for ratings movement.

Concentrated Resource Profile with higher cost of funds:
The debt profile of LCPPL as at June 30, 2023 stood at Rs. 225.98 crore which consists majorly (65% as on June 30, 2023) of term loans from FI/ institutions followed by NCDs (23% as on June 30, 2023) and remaining by Securitization, subdebt CP issuances and term loans from bank. Also, its exposure to banks is on the lower end with only 1 bank in its profile i.e. contributing about 3% of its total o/s borrowings as on June 30, 2023. With the rate hikes, the average cost of funding for LCPPL remains to be around 14.12% p.a as on June 30, 2023 as against 13.61% p.a. as on March 31, 2022. The company has funding accessibility at higher rates in the range of 12.00% to 15.50% p.a. since it is a relatively smaller player and also is in its nascent stages of its business.

LCPPL also engages in various forms of off-balance sheet funding and securitization of its loan assets in the form of PTCs (Pass Through Certificates) and Co-lending. The off-book portfolio (including securitisation) constituted 31% of its total AUM as on June 30, 2023. Going forward, the company plans explore more on this front to maintain its leverage levels and AUM build-up. The ability of LCPPL to raise funds at competitive rates along with proportion of short-term borrowings to facilitate its liquidity profile will be closely monitored.

Regulatory Risk:
The ratings also take note of the regulatory risk associated with entities operating in digital lending as the regulations are still evolving in nature. There have been various guidelines by RBI in this sector with the recent one dated June 08, 2023 pertaining to the FLDG structure. The digital lending entities are gaining momentum & size, and the regulations in the industry also evolving exposing the industry to regulatory risk. However, the extent of impact for fintech players may vary depending on the business model followed. CARE Ratings Limited will closely follow the developments in this industry and will consider taking appropriate rating action in case there are any developments or modifications.

Liquidity: Adequate
LCPPL's asset liability maturity (ALM) profile reflected no negative cumulative mismatches across all maturity buckets as on June 30, 2023. Liquidity profile remains supported by the unencumbered cash and bank balances maintained amounting to Rs. 17.61 crore as on June 30, 2023. CARE Ratings notes that the liquidity management will remain a key monitorable to ensure that the mismatches between longer term products and short-term funding are bridged with the management of collections and repayments at all times.

Environment, social, and governance (ESG) risks: NA

Applicable criteria
Policy on withdrawal of ratings
Criteria for Short Term Instruments
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

About the company and industry

Industry classification

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

Registered as an NBFC-ND with the Reserve Bank of India (RBI), LCPPL is a retail lender providing personal loans to the retail salaried segment through a digital model. LCPPL was formerly known as Lotus Sree Filco Pvt Ltd (LSFPL) but was inactive till 2016. After Loantap Financial Technologies Private Limited (LFTPL) acquired a 24% shareholding in LCPPL in 2016, the company is now a subsidiary of Loantap Financial Technologies Private Limited (LFTPL) with the latter holding a stake of 99.74% as on June 30, 2023. LFTPL had also acquired Bajrang Investments Pvt. Ltd (later renamed as I-Loan Credit Private Limited) a Delhi based two-wheeler lending NBFC in June 2017 and holds 82.99% stake as on July 31, 2023. I-Loan Credit Private Limited is majorly focused towards MSME financing.

Brief Financials for LCPPL (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	62.68	63.52	15.59
PAT	1.87	-12.45	-3.04
Interest coverage (times)	1.08	0.56	0.59
Total Assets	390.18	329.51	NA
Net NPA (%) [90+ dpd]	3.38	6.33	6.90
ROTA (%) [adjusted for off book]	0.46	-2.86	NA

A: Audited; UA; Unaudited; Total Assets are net of deferred tax and intangibles; All ratios are as per CARE's Calculations; For quarter ended June 30, 2023 (UA), ratios are annualized. 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 for this company: 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	-	-	-	-	25.30	CARE A3
Commercial Paper-Commercial Paper (Standalone)	INE0B4P14432	30-12-2022	12.00%	29-09-2023	0.50	CARE A3
Commercial Paper-Commercial Paper (Standalone)	INE0B4P14440	14-02-2023	12.50%	09-02-2024	1.65	CARE A3
Commercial Paper-Commercial Paper (Standalone)	INE0B4P14457	29-03-2023	12.50%	27-09-2023	0.60	CARE A3
Commercial Paper-Commercial Paper (Standalone)	INE0B4P14465	20-04-2023	12.75%	17-10-2023	0.95	CARE A3
Commercial Paper-Commercial Paper (Standalone)	INE0B4P14507	27-06-2023	12.75%	21-06-2024	0.20	CARE A3
Commercial Paper-Commercial Paper (Standalone)	INE0B4P14499	30-06-2023	12.75%	26-09-2023	0.80	CARE A3
Debentures-Non-Convertible Debentures-Proposed	-	-	-	-	0.81	CARE BBB-; Negative
Debentures-Non-Convertible Debentures^	INE0B4P07121	28-02-2022	12.50%	22-08-2023	0.17	CARE BBB-; Negative
Debentures-Non-Convertible Debentures	INE0B4P07139	31-03-2022	12.50%	22-09-2023	0.28	CARE BBB-; Negative
Debentures-Non-Convertible Debentures	INE0B4P07147	29-04-2022	12.50%	21-10-2023	0.23	CARE BBB-; Negative
Debentures-Non-Convertible Debentures	INE0B4P07154	31-05-2022	12.50%	22-11-2023	0.17	CARE BBB-; Negative
Debentures-Non-Convertible Debentures	INE0B4P07162	30-06-2022	13.00%	22-12-2023	0.57	CARE BBB-; Negative
Debentures-Non-Convertible Debentures	INE0B4P07170	10-01-2022	14.25%	15-09-2025	3.23	CARE BBB-; Negative
Debentures-Non-Convertible Debentures	INE0B4P07022	31-05-2021	13.00%	30-11-2022	0.00	Withdrawn
Debentures-Non-Convertible Debentures	INE0B4P07030	15-06-2021	13.00%	15-12-2022	0.00	Withdrawn
Debentures-Non-Convertible Debentures	INE0B4P07063	29-09-2021	13.00%	29-03-2023	0.00	Withdrawn
Debentures-Non-Convertible Debentures	INE0B4P07071	18-11-2021	12.00%	19-11-2022	0.00	Withdrawn

Debentures-Non-Convertible Debentures	INE0B4P07089	20-11-2021	13.00%	14-05-2023	0.00	Withdrawn
Debentures-Non-Convertible Debentures	INE0B4P07097	23-11-2021	13.00%	17-05-2023	0.00	Withdrawn
Debentures-Non-Convertible Debentures	INE0B4P07105	30-11-2021	13.00%	24-05-2023	0.00	Withdrawn
Debentures-Non-Convertible Debentures	INE0B4P07113	20-01-2022	12.50%	14-07-2023	0.00	Withdrawn
Fund-based - LT- fund-based limits	-	1-10-2017	-	08-01-2024	3.96	CARE BBB-; Negative
Fund-based - LT- fund-based limits-Proposed	-	-	-	-	186.04	CARE BBB-; Negative

*the withdrawal of the various instruments in the above table is on account of maturity.
^redeemed as on date; however, no dues certificate is in process.

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-Proposed fund based limits	LT	190.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (23-Nov-22)	1)CARE BBB-; Stable (24-Nov-21)	1)CARE BBB-; Stable (15-Mar-21) 2)CARE BBB-; Stable (15-May-20)
2	Issuer Rating-Issuer Ratings	Issuer rat	-	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE BBB- (Is); Stable (15-Mar-21) 2)CARE BBB- (Is); Stable (15-May-20)
3	Commercial Paper-Commercial Paper (Standalone)	ST	30.00	CARE A3	-	1)CARE A3 (23-Nov-22)	1)CARE A3 (24-Nov-21) 2)CARE A3 (24-May-21)	1)CARE A3 (15-Mar-21)

								2)CARE A3 (15-May-20)
4	Debentures-Non-Convertible Debentures	LT	5.46	CARE BBB-; Negative	-	1)CARE BBB-; Stable (23-Nov-22)	1)CARE BBB-; Stable (24-Nov-21)	1)CARE BBB-; Stable (15-Mar-21)

*Long term/Short term.

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

Bank Facilities	Detailed Explanation
A. Financial covenants	These covenants need to be complied by the company at all times.
I. Capital Adequacy ratio should not fall below 20%	
B. Non-financial covenants	
I. No dilution of promoter holding	

Note: The above covenants pertain to certain instruments out of the total rated facilities.

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	Debentures-Non-Convertible Debentures	Simple
3	Fund-based - LT-Proposed fund-based limits	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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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