Loantap Credit Products Private Limited

November 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	190.00	CARE BB+; Stable	Revised from CARE BBB-; Negative
Non-Convertible Debentures*	5.29 (Reduced from 5.46)	CARE BB+; Stable	Revised from CARE BBB-; Negative
Commercial Paper	30.00	CARE A4+	Revised from CARE A3

*The reduction in facilities from ₹5.46 crore to ₹5.29 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 revision in ratings of the bank facilities and various debt instruments of Loantap Credit Products Private Limited (LCPPL) factors in delay in mobilization of equity capital and continuation of losses in Q2FY24 also. Earlier, the company planned to mobilise fresh equity of ₹20 crore in Q2FY24 and ₹80 crore in Q3FY24. The revision also takes note of reduction in quantum of equity proposed to be raised.
As against the plan of ₹20 crore to be infused in Q2FY24; only ₹10 crore has been received at Loantap Financial Technologies Private Limited (LFTPL) through Compulsorily Convertible Debentures (CCDs) which is expected to be downstreamed to LCPPL before Q3FY24. Now, the company expects to receive balance ₹10 crore in the month of November 2023 at LFTPL which will eventually be downstreamed to LCPPL before Q3FY24. Further, against ₹80 crore expected in Q3FY24, now company expects to mobilise ₹30 crore in Q3FY24 and ₹50 crore in Q4FY24. Uncertainty on timely mobilization of fresh equity continues. Further, during Q2FY24, LCPPL reported PBT at ₹ (3.76 crore) as against ₹ (4.11) crore during Q1FY24. The subsidiary LFTPL (83% as on July 31, 2023), I-loan Credit Private Limited has also received direct infusion of ₹5 crore in the form of equity and has expectation of receiving additional ₹5 crore in the month of November 2023.

The ratings further highlight its declining networth, stressed asset quality metrics which have increased post the RBI directive of IRACP (Income Recognition, Asset Classification and Provisions) norms along 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, moderate track record and declining AUM and concentration in the resource profile with relatively higher cost of funds remain key rating constraints for the company. On account of losses, total CAR declined from 31.92% as on March 31, 2023 to 30.45% as on September 30, 2023, despite reduction in loan book (net) from ₹ 229.51 crore to ₹ 207.33 crore during the same period. Further, with the recent RBI circular (dated November 16, 2023) on increasing risk weights for unsecured personal loans, capital adequacy level is likely to moderate further.

The ratings remain supported by the technology-led risk assessment business model with digitization of most of the credit underwriting processes with minimal manual intervention and experienced management team.

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:

- Decline in capital levels or deterioration in leverage with overall gearing of more than 5 times
- Inability to infuse capital at consolidated and standalone levels as per expected timelines
- Continuation of losses and resultant decline in capital adequacy levels

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: Stable

The stable outlook reflects expectation of capital mobilisation which would enable the company maintain capitalization level and make good for the losses.

[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 weaknesses

Declining networth along with delay in mobilisation of equity capital in timely manner: Loantap Financial Technologies Private Limited (LFTPL), the parent company holds 99.74% stake in LCPPL (as on September 30, 2023). LFTPL has demonstrated its ability in the past to attract investments and raise funds to the tune of ₹170.1 crore in its Series A and Series B fund from a mix of investors which include 3one4 Capital, India Quotient II; 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. However, during FY24, Out of the envisaged infusion of ₹20 crore by Q2FY24; only ₹10 crore has been infused at LFTPL till Q2FY24 which is expected to be downstreamed to Loantap before December 2023. Additional ₹10 crore of equity is expected in the form of Compulsorily Convertible Debentures in the month of November 2023. The earlier tranche of ₹80 crore which was expected in Q3FY24 has now been delayed and bifurcated across 2 quarters till Q4FY24. The management has indicated an infusion of ₹30 crore in Q3FY24 & ₹50 crore in Q4FY24. However, there exists an uncertainty on the materialization of the same considering the delay noted during Q2FY24 for the ₹20 crore infusion which was envisioned.

As on March 31,2023, the tangible net worth stood at ₹92.94 crore due to losses for the year which increased on account of higher write offs (March 31, 2022: ₹109.84 crore). This continued and LCPPL reported losses for H1FY24 of (₹5.82) crore which led to decline in the networth of the company to ₹85.07 crore as on September 30, 2023.The debt to equity ratio stood at 2.49x as on March 31, 2023 (September 30, 2023: 2.66x) as against 2.47x as on March 31, 2022 which stood at 2.47x. Capital Adequacy Ratio remained comfortable at 31.92% as on March 31, 2023 (September 30, 2023: 30.45%) as against 34.29% as on March 31, 2022. Adequate capital cushions provide the required headroom to absorb high credit costs synonymous with most fintech companies. Thus, the materialization of the capital as per the timelines stated and the quantum as expected remains crucial for the ratings going forward and also for the company to grow and sustain in the long-term.

Stressed Asset Quality continues: 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. GNPA (%) based on 180+ dpd increased to 7.50% as on September 30, 2023 as against as against 7.27% as on June 30, 2023 (5.68% as on March 31, 2023). Gross NPA ratio based on 90+ dpd increased to 8.89% as on March 31 2023 (June 30, 2023: 10.13%) as against 4.79% as on March 31, 2022. GNPA (%) continues to remain on the higher side. The company has o/s One-Time Restructured assets (OTR) of ₹ 30.76 crore as on March 31, 2023 which declined to ₹ 23 crore as on September 30, 2023, of which reportedly 30% was in 90+ dpd.

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 in 7 year the loan would have completed almost 3 cycles. Moreover, CARE Ratings observes that the company has been making foray into the STRCL (Short term revolving credit line) which are relatively shorter tenure loans. AUM of STRCL also increased from ₹ 2.79 crore as on March 31, 2022 to ₹ 36.28 crore as on March 31, 2023. This stood at ₹ 54.61 crore as on June 30, 2023 and ₹ 55.92 crore as on September 30, 2023. The quality of sourcing and underwriting of the same is yet to be seen. Due to this movement of the company to STRCL loans and lower growth in other segments, the AUM of the company has declined to ₹ 315.27 crore as on September 30, 2023 as against ₹ 336.49 crore as on March 31, 2023 (June 30, 2023: ₹ 328.60 crore). 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 and continuation of losses: LCPPL became profitable during FY20, however, due to higher write-offs during FY23, it reported loss of ₹ 12.45 crore as against profit of ₹ 1.87 crore during FY22. The company continued to remain in losses during H1FY24 which stood at ₹ (5.82) crore. At the consolidated level also due to higher write-offs of ₹ 21.60 crore, losses of the company increased to ₹ (20.98) crore during FY23 as against profit of ₹ 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 pressurized 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 and reduce the losses at the consolidated and standalone levels 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 September 30, 2023 stood at ₹ 226.88 crore which consists majorly (62%) of term loans from FI/ institutions followed by NCDs (31%) and remaining by Securitization, subdebt CP issuances and term loans from bank. Also, its funding from 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 September 30, 2023. Weighted average cost of funding for LCPPL weighted average cost of funding stood at 13.95% p.a. as on September 30, 2023. The company has funding accessibility at higher rates in the range of 12.00% to 15.50% p.a. Also, the company has availed term loans during September at 16.25% p.a. As stated by the management, the incremental funds were available at higher cost due to impact of repo rate hikes. LCPPL also engages in various forms of off-balance sheet funding and securitization of its loan assets in the form of Passthrough Certificates and Co-lending. The off-book portfolio (including securitisation) constituted 33% of its total AUM as on September 30, 2023 as against 32% as on March 31, 2023. The ability of LCPPL to raise funds at competitive rates along with proportion of short-term borrowings to facilitate its liquidity profile & increasing its share of bank funding in its overall borrowing 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 ones dated November 16, 2023 in relation to increase in risk weights to 125% as against 100% and 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 in terms of capital and other parameters like growth may vary depending on the business model followed.

Key Strengths
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.

Liquidity: Adequate
LCPPL's asset liability maturity (ALM) profile reflected negative cumulative mismatches in the 4 to 6 months and 7 to 12 months buckets as on October 01, 2023 aggregating to ₹ 7 crore (excluding lien marked cash collateral and Fixed deposits of ₹ 29 crore in its inflows). Liquidity profile remains supported by the unencumbered cash and bank balances maintained amounting to ₹32.34 crore as on September 30, 2023 at standalone levels & ₹54.44 crore at consolidated LFTPL as on September 30, 2023.

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
Factoring Linkages Parent Sub JV Group
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 September 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) [Standalone]	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	62.68	63.52	29.39
PAT	1.87	-12.45	-5.82
Interest coverage (times)	1.08	0.56	0.58
Total Assets	390.18	329.51	318.49
Net NPA (%) [90+ dpd]	3.38	6.33	NA
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 September 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	-	-	-	-	24.80	CARE A4+
Commercial Paper-Commercial Paper (Standalone)	INE0B4P14440	14-02-2023	12.50%	09-02-2024	1.65	CARE A4+
Commercial Paper-Commercial Paper (Standalone)	INE0B4P14507	27-06-2023	12.75%	21-06-2024	0.20	CARE A4+
Commercial Paper-Commercial Paper (Standalone)	INE0B4P14515	07-07-2023	14.00%	03-01-2024	2.35	CARE A4+
Commercial Paper-Commercial Paper (Standalone)	INE0B4P14523	21-07-2023	12.75%	03-01-2024	1.00	CARE A4+
Debentures-Non-Convertible Debentures-Proposed	-	-	-	-	0.81	CARE BB+; Stable
Debentures-Non-Convertible Debentures*	INE0B4P07121	28-02-2022	12.50%	22-08-2023	0.00	Withdrawn
Debentures-Non-Convertible Debentures^	INE0B4P07139	31-03-2022	12.50%	22-09-2023	0.28	CARE BB+; Stable
Debentures-Non-Convertible Debentures^	INE0B4P07147	29-04-2022	12.50%	21-10-2023	0.23	CARE BB+; Stable
Debentures-Non-Convertible Debentures	INE0B4P07154	31-05-2022	12.50%	22-11-2023	0.17	CARE BB+; Stable
Debentures-Non-Convertible Debentures	INE0B4P07162	30-06-2022	13.00%	22-12-2023	0.57	CARE BB+; Stable
Debentures-Non-Convertible Debentures	INE0B4P07170	10-01-2022	14.25%	15-09-2025	3.23	CARE BB+; Stable
Fund-based-Long Term	-	1-10-2017	-	08-01-2024	3.75	CARE BB+; Stable
Fund-based-Long Term-Proposed	-	-	-	-	186.25	CARE BB+; Stable

*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.

CareEdge RATINGS

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-Long Term	LT	190.00	CARE BB+; Stable	1)CARE BBB-; Negative (20-Sep-23)	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 A4+	1)CARE A3 (20-Sep-23)	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	5.29	CARE BB+; Stable	1)CARE BBB-; Negative (20-Sep-23)	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: NA

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-Long Term	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:
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