Earlysalary Services Private Limited

April 05, 2024

Facilities@	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facility	**1.16 (Reduced from 15.26)**	**CARE A- (CE); Stable**	**Reaffirmed**

Details of instruments/facilities in Annexure-1.

@Based on credit enhancement in the form of unconditional and irrevocable partial guarantee provided by Northern Arc Capital Limited (NACL rated 'CARE A1+'), to the extent of ₹1.17 crore, being the last EMI amount.

Unsupported rating	CARE BBB+ [Reaffirmed]

Note: Unsupported rating does not factor in explicit credit enhancement.

Rationale and key rating drivers for the credit enhanced debt

CARE Ratings Limited (CARE Ratings) has reaffirmed rating of the credit-enhanced term loan of Earlysalary Services Private Limited (ESPL) partially guaranteed by Northern Arc Capital Limited (NACL; rated 'CARE A1+') at 'CARE A- (CE)' (pronounced as Single A Minus [Credit Enhanced]). For the detailed risk assessment of NACL and for its latest press release, refer to CARE Ratings' website.

Reaffirmation of rating assigned of outstanding term loan of ₹1.16 crore (initial issue size: ₹25 crore) is basis the credit enhancement (CE) as unconditional and irrevocable on demand guarantee provided by NACL of ₹1.17 crore. The guarantee provided at the time of loan disbursement was ₹6.50 crore (26% of the initial issue size of the term loan).

Rationale and key rating drivers of NACL (Guarantor)

The rating assigned to NACL derives strength from its established track record of operations, well-established risk management systems, comfortable capitalisation levels, and adequate liquidity. The rating factors in NACL's diversified client base with presence across asset classes and revenue diversification to an extent through fee-based income. The rating also takes note of improving profitability and stable asset quality indicators with good growth in assets under management (AUM), especially in retail exposures in FY23. AUM increased from ₹6,874 crore as on March 31, 2022, to ₹8,566 crore as on March 31, 2023, with increase in share of non-institutional book from 17.5% to 30.8%.

However, the rating is constrained by client concentration risk, exposure to entities with marginal risk profiles that are relatively risky, and exposure to the non-institutional (retail) segment, where the track record is low. Over the years, the company has been gradually reducing its exposure to wholesale, by diversifying in the retail segment through its own channels and through co-lending arrangements with non-banking financial companies (NBFCs)/ fintechs. Within the retail segment, exposure to unsecured personal loans (PL) has increased significantly in FY22 and FY23. The company also has a direct presence in microfinance institution (MFI) loans, where the portfolio originates through its subsidiary, Pragati Finserv Private Limited (Pragati). Together, PL and MFI loans (retail exposure) accounted for 21% AUM as on March 31, 2023.

Key rating drivers of ESPL

The standalone ratings given to the bank facilities/ instruments of Earlysalary Services Private Limited (ESPL, rated 'CARE BBB+; Stable') are strengthened by its healthy capital levels as a result of steady capital infusion from investors through the parent company providing evidence of support and commitment to grow its business operations. The ratings further continue to factor the business potential of the technology-led risk assessment model with most of the credit underwriting process being digitally performed and minimum requirement of manual intervention offering high operating leverage which helps to achieve substantial loan portfolio growth in a relatively lesser period. The rating also considers the scalable model of the company considering its focus on the salaried segment. ESPL's credit profile also derives strength from an adequately experienced management team.

However, the ratings are constrained by moderate asset quality metrics coupled with higher write-offs. Though the earnings have improved during FY23 & 9MFY24 due to expansion in AUM, credit cost continues to remain high. Furthermore, ESPL's still-evolving business profile owing to regulatory changes, its moderate stage of operations and concentration in the resource profile with lower share of bank funding though improving gradually along with relatively higher cost of funding remain key rating constraints.

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

ESPL's ability to maintain sufficient capital cushion while improving the asset quality and profitability on a sustained basis will remain critical parameters for the ratings.

Refer to CARE website for latest standalone press release for ESPL issued.

The dues under term loan are supported by the following:

1. ESPL's internal accrual (rated 'CARE BBB; Stable'), which is a borrower.
2. Credit enhancement from unconditional and irrevocable partial guarantee to be provided by NACL (rated 'CARE A1+') to the extent ₹1.17 crore, being the last EMI due. It was initially at ₹6.50 crore (26% of the initial issue size of the term loan). With amortisation, guarantee cap shall reduce to 50% of then outstanding principal or the subsequent EMI due whichever is lower.
3. Corporate guarantee by Social Worth Technologies Private Limited (SWTPL; the parent company of ESPL).
4. Charge over receivables under the contribution made by the company to special purpose vehicle (SPV).
5. Sound legal structure of the transaction and well-defined payment mechanism.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Upward revision in ESPL's standalone rating or credit enhancement provider.

Negative factors

- Downward revision in standalone rating of the issuer or credit enhancement provider.
- Non-adherence to key transaction terms envisaged at the time of the rating.

Analytical approach

Credit enhancement of partial guarantee provided by NACL over the standalone credit profile of ESPL. CARE Ratings has considered standalone credit ratings of the borrower and support of partial guarantee to consider an enhanced rating for this facility. The CE rating is solely for this rated facility, which derives benefit from unconditional, irrevocable, and payable on demand partial guarantee.

For the unsupported rating, CARE Ratings has considered a standalone view for assessing ESPL's financial position. However, CARE Ratings has also factored in financial and technological support from its parent entity, SWTPL, considering integration in financials and operations between the parent and the subsidiary.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation of continued operational and technological support from its parent, SWTPL, with sustained profitability parameters at standalone and consolidated levels. The stable outlook also factors in maintaining healthy business and financial parameters with improving asset quality metrics of ESPL over the medium term.

Detailed description of key rating drivers:

Key strengths – ESPL

Demonstrated Record to mobilise capital:

Social Worth Technologies Private limited (SWTPL), the technology parent company holds 100% stake in ESPL (as on September 30, 2023). Over the years, the cumulative capital infusion by SWTPL reached ₹985.50 crore up to September 30, 2023. Of this infusion, the company has downstreamed ₹451.64 crore to ESPL up to September 30, 2023, from the parent. SWTPL's major investors include venture capital funds such as The Rise Fund (TPG), Norwest Capital LLC, Eight Roads, Chiratae Ventures, Piramal Capital & Housing Finance Limited, among others.

As June 30, 2023 (Provisional), Capital Adequacy Ratio of ESPL remained adequate at 29.27% (March 31, 2023: 28.77%) with overall gearing of 2.59 times (March 31, 2023: 2.47times). Excluding the ICDs from the parent, this would stand at 1.82 times as on June 30, 2023 (March 31, 2023: 1.48 times). AUM to Networth at consolidated levels improved to 2.39 times as on June 30, 2023 (March 31, 2023: 2.08 times) as against 6.72 times as on March 31, 2022 on account of capital infusions at the parent level. The Intercorporate Deposits (ICDs) of the parent would eventually be converted into equity going forward. This support through ICDs demonstrates the ability of the parent company as well as commitment of promoters towards growth of its business operations. Further, it also helps ESPL to maintain healthy capital cushions. Higher capital buffers also provide the required headroom to absorb any other unexpected losses which may arise due to a still-developing technology-based lending segment. CARE Ratings estimates that the current capital levels shall act as an adequate cushion and also enable ESPL to rapidly scale-up its loan portfolio in the near term.

Growth Potential led by Rapid Scalability of the Technology-Based Underwriting Model:

ESPL has been reporting continuous profits since FY20 at consolidated and standalone levels. ESPL reported Return on Total Assets (ROTA) [adjusted for off book] of 3.48% in FY22 (9MFY23 [adjusted for off book]: 2.97%) led by higher NIMs. In FY22, the company disbursed ₹1,550.10 crore (on AUM) which increased to ₹ 2234.61 crore during 9MFY23. At a consolidated level, SWTPL reported PAT of ₹33.89 crore in FY22 (9MFY23: ₹ 34.16 crore). Opex on consolidated basis (of AUM) stood at 23.30% in 9MFY23 as against 21.80% in FY22 due to increase in customer acquisition and employee expenses, considering increase in scale of operations.

CARE Ratings expects profitability to remain supported by its high-yield, shorter-tenure loan book and ability to disburse loans at a faster pace supported by technology. The company's ability to sustain profitability at consolidated and standalone levels is a key monitorable.

Ability to swiftly scale up led by technology-led risk assessment model

Assets Under Management (AUM) reported a growth of 93% from Rs. 1,019.46 crore as on March 31, 2022 to Rs.1,963.16crs as on March 31, 2023, which further increased to Rs. 2,336.23 crore as on June 30, 2023. This is largely a result of a branchless model as the lending process is primarily digital with a majority of its credit risk underwriting processes – origination, risk assessment and disbursement being 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. Also, ESPL largely competes with banks in the personal loans segment with the company's borrower profile mainly leaning towards the digitally-savvy younger demographics who require personal loans for home improvement, weddings, vacations, skill upgradation courses etc. Consequently, technology provides a competitive edge over traditional banks, considering the loan process – from application to disbursal taking less than 3 minutes in more than 90% cases. CARE Ratings notes that while technology has demonstrated its capacity for growth, the ability of the company to keep a check on quality of the loans being sourced will remain a key rating sensitivity. Fibe, in collaboration with Axis Bank, has introduced a UPI-enabled Rupay Co-branded Credit Card exclusively for its customers (in the month of October 2023).

Experienced Management Team:

ESPL's co-founders, Mr. Akshay Mehrotra (CEO) and Mr. Ashish Goyal (CFO) both possess more than two decades of experience together in the retail business and financial services. Akshay's previous experience has been in areas like strategic planning and marketing with some Indian brands like Future Retail Ltd., PolicyBazaar.com and Bajaj Allianz Life Insurance Co. Ltd. Akshay oversees the implementation of the company's product strategy and is focused on building the business and building EarlySalary as a Financial Institution. Ashish is a finance professional with over 19 years of experience spanning the entire gamut of finance including business finance/fund raising, risk management investment, treasury operations, risk management and strategic initiatives. Prior to starting EarlySalary, he was associated with the Bajaj Allianz group for 14 years. In his last role with Bajaj Allianz, he was the Chief Investment Officer and was responsible to manage more than Rs. 35,000 crores of AUM. Mr. Vimal Saboo, ESPL's Chief Business Officer, was associated with Edelweiss Capital, Axis Bank, ICICI Bank, and L&T-John Deere Ltd. His past experience has been across credit decision making, formulating policies relating to sourcing, authorization center and analytics function in the Cards business. Mr. Anil Sinha, Chief Technology Officer, has been at Deutsche Bank, Barclays Investment Bank, RBS Global Banking & Markets, Nagarro and Interra Information Technologies. He has delivered complex products in the space of distributed data processing, especially related to trade processing and risk analytics. Their previous experience in retail is a key rating strength for ESPL. The CXOs are supported by a management team with an average experience of 8-16 years in risk management, data science, finance, digital marketing, quantitative analysis and consulting.

Key Strengths – NACL

Established track record of operations

NACL has been in the funding and debt issuances placement business for over 10 years and has established relationships with several investors, including banks, NBFCs, mutual funds, offshore investors, and private wealth firms, among others. NACL has enabled funding for more than 200 partner institutions across segments such as microfinance, affordable housing finance, small business loans, commercial vehicle (CV) finance, agricultural finance, corporate finance, and consumer finance. NACL is a board-led management-driven company, with Ashish Mehrotra as its Managing Director and CEO, PS Jayakumar as non-executive independent chairman and Dr Kshama Fernandes as non-executive vice-chairperson. The board of NACL consists of 10 directors, including four independent directors and three nominee directors. NACL has a strong senior management team to manage functions, such as risk, and business, technology, among others.

Well-established risk management systems

Over the years, NACL has developed a well-established risk management system. The risk policy and risk framework are approved by the Risk Committee, which is a sub-committee of the board. The credit team and the risk team assess credit risk profiles of entities at the time of onboarding and on a continuous basis, which is reviewed by the credit committee. NACL has developed strong underwriting guidelines for onboarding clients across asset classes. The due diligence conducted by the origination team measures quality of the entity against underwriting guidelines, including an assessment of the origination or credit or collection processes, adequacy and quality of MIS systems, corporate governance and management. CARE Ratings notes that the risk systems have been built with geographical and district-wise risk factors and triggers to manage portfolio diversification.

For regular tracking of the portfolio, NACL has a risk analytics team that tracks the performance of all transactions monthly. The collection and recovery status are monitored daily by the operations team. Apart from monitoring at the HO, field visits are conducted by NACL's risk monitoring team, wherein risk monitoring team members visit offices or branches of each client. NACL has strengthened the risk management systems by deploying field level personnel for monitoring the portfolio. Strong risk policies developed by NACL mitigate inherent risks associated with these asset classes.

NACL has its in-house Nimbus Platform, which is an end-to-end solution, and the company has an internal IT team for its maintenance. Nimbus enables access to diverse financial products for enterprises in a seamless, efficient, and convenient manner. The platform aims to bring together a diverse set of investors (domestic and international) and debt seekers to a common, curated platform. In terms of co-lending, there is system integration with the co-lending partners. NACL also has its wealth management platform, Altifi, which enables retail investors to invest in transactions underwritten by the company.

Revenue diversification through fee-based income

NACL earns fund-based income from loans to its clients and other direct exposure, and fee-based income from professional fees earned on activities including securitisation, loan syndication, bond, and other structured finance transactions. In FY23, fee-based income stood at ₹56 crore (0.66% of the average total assets) as against ₹64 crore in FY22 (0.96% of the average total assets). CARE Ratings observes that in FY23, NACL increased exposure to the non-institutional segment, while exposure to securitisation has reduced, resulting in a decline in fee-based income.

Presence in diversified asset classes with increase in proportion of non-institutional book

NACL started with MFI asset class in FY11 and subsequently diversified to affordable housing finance (AHF) in FY12, small business loans (SBL) in FY13, CV finance in FY14, agri loans in FY15, corporate loans in FY16 and consumer finance in FY20, loan against property (LAP) in FY22, education loan (EL) and supply chain finance (SCF) in FY23, respectively.

NACL's fund-based AUM grew significantly by 25% in FY23 and stood at ₹8,566 crore as on March 31, 2023, as against ₹6,874 crore as on March 31, 2022. As on March 31, 2022, NACL's AUM comprised advances to clients (NBFCs and corporates) (51%), investment in debt instruments (14%), investments in alternative investment funds (AIF) (3%), and advances to retail via co-lending partners (19%). In terms of asset classes, as on March 31, 2023, the share of MFI (inclusive of SFB) reduced in the year to 27% from 29% as on March 31, 2022, followed by small business loans to 27% (PY: 27%), consumer finance increased to 21% (PY: 15%), CV finance to 11% (PY:14%), corporate finance to 8% (PY: 8%), AHF to 2%, Agri to 2%, LAP and SCF at 2% and 1%, respectively (PY: AHF and Agri : 3% and 2%, respectively). NACL forayed into LAP through its branch network. In addition to asset class diversification, NACL is also focusing on segment diversification. Over the years, it has been gradually shifting from institutional credit to non-institutional credit. Retail exposures through co-lending partners comprise 19% of the AUM as on March 31, 2023, as against 16% as on March 31, 2022 (24% of the AUM as on June 30, 2023). In FY23, NACL completed the transaction of business transfer of S.M.I.L.E Microfinance and has ventured into direct retail lending of MFI loans through Pragati (a wholly owned subsidiary of NACL) acting as BC partner and ventured into direct retail lending of LAP, SCF and education loans (EL). The total non-institutional book (co-lending + direct retail) stood at 31% of the AUM as on March 31, 2023. NACL also lends to mid-market (non-financial institutions [FIs]) clients, which comprised around 8% of the AUM as on June 30, 2023.

Going forward, CARE Ratings expects non-institutional exposure to increase and will continue to monitor its performance.

Total AUM (fund based+ non-fund-based) stood at ₹8,730 crore as on March 31, 2023, as against ₹7,111 crore as on March 31, 2022. NACL also has presence in fund management through its subsidiary, Northern Arc Investment Managers Private Limited, and currently has funds outstanding of ₹2,776 crore as on March 31, 2023.

Comfortable capitalisation levels

NACL's capital adequacy ratio (CAR) and Tier-I CAR declined to 20.77% and 20.15% as on March 31, 2023, as against 22.79% and 22.08%, respectively, as on March 31, 2022, due to growth in AUM. Gearing levels increased to 3.8x (per CARE Ratings' calculation) as on March 31, 2023, as against 3.5x as on March 31, 2022. Present capitalisation levels will be sufficient to fund growth envisaged by the management in the current financial year.

CARE Ratings notes that the company will require to raise capital in the medium term to enable higher growth in AUM going forward.

Diversified funding profile

Of the total borrowings, the share of bank term loans increased to 61% as on March 31, 2023 from 56% in March 31, 2022, followed by external commercial borrowings (ECBs)/offshore at 27% (PY: 28%), domestic non-convertible debentures (NCDs) at 4% (PY: 6%) (of which, NCD from banks comprise 20% of the domestic NCD), loans from FIs at 6% (PY: 8%), CP at 1% (PY: 4%), and sub-debt at 1%. With respect to investor-wise share of borrowings, 75% is from banks, followed by FIs (including offshore funds) (22%), and mutual funds and wealth management firms (4%).

Stable asset quality indicators

The company has maintained good asset quality levels since inception. However, there was a moderation in asset quality parameters in FY21, with increased slippages due to the COVID-19 pandemic. However, the GNPA and net NPA (NNPA) improved to 0.49% and 0.18%, respectively, as on March 31, 2022, due to improved recoveries and write-off in FY22. GNPA and NNPA stood at 0.77% and 0.40%, respectively, as on March 31, 2023 (0.50% and 0.19%, respectively, as on June 30, 2023). Among the non-institutional segment, direct origination loans had 0+ DPD% of 7.65% and 90+ of 1.13% as on March 31, 2023, as against 6.97% and 0.81% as on March 31, 2022, respectively. However, the company has a first loss default guarantee (FLDG) cover against this book. With growing non-institutional book, the company has set up a separate collections team to facilitate partners when required.

CARE Ratings expects asset quality to remain stable over the medium term.

Improved profitability indicators in FY23

NACL's profit after tax (PAT) improved significantly in FY23 to ₹225 crore in FY23 from ₹164 crore in FY22. The net interest margin (NIM) improved to 6.88% in FY23 from 5.42% in FY22 with improving yields, and increasing proportion of the non-institutional book. The fee-based income (as a percentage of the average total assets) declined to 0.66% in FY23 from 0.96% in FY22. The opex to average total asset increased to 4.22% in FY23 from 2.99% in FY22, due to increase in the non-institutional book. The company opened branches for LAP in FY23. Pre-provision operating profit (PPOP) grew by 30% (y-o-y) to ₹345 crore in FY23 from ₹266 crore in FY22. The credit cost, as a percentage of total advances, improved to 0.49% in FY23 from 0.58% in FY22 on account of improved asset quality and reduced provisions. Thus, with the improvement in the NIM and reduction in credit cost, NACL reported a ROTA of 2.66% in FY23 as against 2.45% in FY22. In Q1FY24, NACL reported a PAT of ₹59 crore as against a PAT of ₹50 crore in Q1FY23. NACL reported a ROTA of 2.57% in Q1FY24 as against 2.55% in Q1FY23.

CARE Ratings expects profitability to remain stable over the medium term.

Key weaknesses – ESPL

Moderate asset quality metrics coupled with higher write-offs:

ESPL reported GNPA of 3.50% as on March 31, 2023 as against 2.68% as on March 31, 2022 despite higher write offs for the period. Further, this increased to 3.63% as on June 30, 2023. Moreover, the write offs at ESPL continued to remain higher which stood at Rs. 44.46 crore as on March 31, 2023 as against e 3 CARE Ratings Ltd. Press Release Rs. 15.48 crore as on March 31, 2022. As on June 30, 2023, the write offs stood at Rs. 15.82 crore. The write offs of the company stood higher which remains inherent to the entities operating in the unsecured lending segment. ESPL has a provision coverage ratio of 65% as on June 30, 2023 based on IND AS. (March 31, 2023: 54% as per IGAAP). Current collection efficiency [Current collections/Current dues] stood at 94% as on June 30, 2023 as against 86% as on April 30, 2023. Further the bounce rates of the company stood in the range of 12% to 17%. The average resolution rate (within 1-30 days) for bounce cases stood at 78% for the period of 15 months ended June 30, 2023.

CARE Ratings observes that high credit cost is a key feature of the companies operating in the digital lending segment which reflects the yet-to-stabilize business as well as risk models. However, ESPL's borrower segment is the young salaried class with average monthly income in the range of Rs. 30,000 to Rs. 50,000. Going ahead, CARE Ratings will continue to monitor the asset quality metrics along with the write-offs closely.

Moderate track record of operations

ESPL has an operational track record of around 5 years with an AUM of around Rs. 2,336.93 crore as on June 30, 2023 and Rs. 1,963.16 crore as on March 31, 2023 (having grown at a CAGR of 87% over FY19- FY23). Due to lower vintage, its asset quality performance through different economic cycles and geographies is yet to be established inducing a level of uncertainty. 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 the models will only be established over a period of time.

Moderate Financial Profile due to higher credit costs:

ESPL reported a higher PAT of Rs. 15.17 crore during FY23 as against Rs. 2.89 crore during FY22. This was driven by higher interest income and processing fees recorded on account of the book growth over the year. During Q1FY24 (Prov.) this stood at Rs. 3.79 crore. Similarly, ROTA (including off book) stood at 0.97% during FY23 (Q1FY24 (Prov.): 0.67%) as against 0.43% during FY22. However, ESPL's opex to average tangible total assets (including off book) remains at 8.06% during FY23 as against 6.93% during FY22. This is due to increase in employee expenses and sourcing fees paid to the parent during the year. During Q1FY24 (Prov.), opex to average tangible assets stood at 9.88%. Further, the company's credit cost also remains elevated due to higher write offs. Credit cost (including off book) stands at 4.27% as on FY23 as against 2.57% during FY22. This increased to 7.47% during Q1FY24 (Prov.) However, this sustenance in profitability along with improvement in credit cost is yet to be seen owing to a moderate track record of around 5 years.

At a consolidated level, SWTPL reported profits during FY23 (A) & Q1FY24 (Prov.) of Rs. 36.33 crore and Rs. 24.82 crore as compared to PAT of Rs. 4.00 crore during FY22 as a result of higher interest income growth emerging from growth in AUM. Other income (on AUM basis) increased from 16.30% during FY22 to 18.64% during FY23 (A). During Q1FY24 (Prov.), this stood at 16.75%. The growth in other income mainly comprised of processing fees and servicing fees which consisted of the income from its off-book partners. SWTPL would also receive sourcing fees from its off-book partners going forward which would further increase the other income. The Credit cost including service deficiency (on AUM basis) continued to remain high on account of higher write offs at 8.89% during FY23 & 9.20% during Q1FY24 as against 4.87% during FY22. Going forward, with increase in disbursements and improvement in asset quality, the ability of the parent and the NBFC to improve profitability while minimizing credit cost will remain a key rating sensitivity.

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.

Key weaknesses - NACL

Client concentration risk

With significant exposure of NACL being wholesale, top 10 exposures account for 16% of the AUM (PY: 18%) and 72% of the net worth (PY: 72%) as on March 31, 2023. CARE Ratings observes that the company's ability to keep its asset quality under control remains critical, since slippage in high ticket loans, will have a significant impact on the asset quality and profitability.

Exposure to marginal risk profiles, which are relatively risky

NACL invests in subordinated tranches of securitisation transactions, which are exposed to a higher credit risk as compared to the senior tranche of securitisation transactions. NACL also takes exposures to subordinate tranches by investing in sub-debt and investing in Class-A units of alternate investment funds. However, the share of subordinated exposures has been decreasing in the last two years ended March 31, 2023. The share of subordinated exposures has come down from 13.36% as on March 31, 2021, to 8.72% as on March 31, 2022, and further to 5.35% as on March 31, 2023. In terms of ratings, 6% of the securitisation exposure, 28% of the loan exposure (excluding retail exposure), and 1% of the NCD exposure, as on March 31, 2023, has ratings of lesser than BB+ or unrated.

Significant increase in non-institutional loan book in FY23; its performance remains a key monitorable

NACL primarily works as an arranger to raise debt capital for small and mid-size companies, especially FIs. However, a gradual shift is being observed from institutional lending to retail credit. It has been taking steps to reduce concentration towards institutional exposures. NACL has also increased its exposure to the direct retail segment, with MFI loans through Pragati as BC partner, through direct LAP, SCF and education loans in FY23. The institutional and non-institutional (co-lending and retail) composition stood at 69% and 31%, respectively, as on March 31, 2023. The performance of the non-institutional book remains a key monitorable.

Liquidity: Adequate

Inherent liquidity in the structure is adequate, given the support available to the lender. This support includes ESPL's internal accruals, cover pool aggregating to 1.10x of outstanding facility.

As on December 31, 2023, the company's ALM profile had no negative cumulative mismatches. As on December 31,2023, the company has contractual outflows of ₹938 crore upto one year against which the company has contractual inflows of ₹1,747 crore.

Applicable criteria

Definition of Default
Rating Credit Enhanced Debt
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Non Banking Financial Companies
Securitisation ABS and MBS

Adequacy of credit enhancement structure:

The credit enhancement is as unconditional and irrevocable partial guarantee provided by NACL (rated 'CARE A1+').

About the credit enhancement provider NACL

NACL is primarily engaged in enabling small and medium-sized non-banking finance companies (NBFCs) to access debt capital including securitisation and debentures. It also provides loans to these NBFCs and generally invests in subordinated tranches of securitisation pools arranged by it. The company is registered with the RBI as a non-deposit taking systemically important NBFC and started NBFC activities in 2008 with a focus on the microfinance sector, mainly to small and medium-sized MFIs. Later, NACL has expanded scope of its NBFC activities to include affordable housing finance (AHF), small business loans (SBL), commercial vehicle finance (CV), agricultural finance (AF), and corporate finance (CF).

Key financial indicators

Brief financials	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total income (₹ crore)	876	1,261	1,290
PAT (₹ crore)	164	225	198
Total assets (₹ crore)	7,812	9,136	NA
Net NPA (%)	0.19	0.40	0.10
ROTA (%)	2.45	2.66	NA

A: Audited; UA: Unaudited; NA: Not available; Note: 'these are latest available financial results'.
All ratios are per CARE Ratings' Calculations Note: For 9MFY24 (UA), ratios are annualised.

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Financial technology (fintech)	Financial technology (fintech)

Earlysalary Services Pvt Ltd (formerly known as Ashish Securities Private Limited), a subsidiary of Social Worth Technologies Private Limited (SWTPL) is a Non-systemically important Non-deposit taking NBFC registered with RBI. ESPL is engaged in unsecured lending to salaried individuals, through its digital application EarlySalary (ES). Its products include short-term EMI loans of 3-6 months and long-term loans of 9-24 months, with a ticket size of up to Rs. 5,00,000. Since FY18 till Q1FY24, the group has cumulatively disbursed loans of around Rs. 13,357.52 crore, and had an outstanding portfolio of Rs. 2,336.92 crore as on June 30, 2023. This includes loans under own book + managed book under banking correspondence arrangement.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total Income	108.92	276.64	479.80
PAT	2.89	15.17	30.52
Total assets	517.77	1337.63	2044.59
Net NPA (%)	0.86	1.62	1.23
ROTA (%)	0.71	1.63	2.46

A: Audited; UA; Unaudited. Note: 'these are latest available financial results'.

Total Assets are net of deferred tax and intangibles
All ratios are per CARE Ratings' Calculations Note: For 9MFY24 (UA), ratios are annualised.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

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

Complexity level of 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
Fund-based - LT-Term Loan		-	-	28-03-2024	1.16	CARE A- (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	CARE BBB+

Annexure-2: Rating history for 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	Debentures-Non-Convertible Debentures	LT	217.04	CARE BBB+; Stable	1)CARE BBB+; Stable (20-Oct-23) 2)CARE BBB+; Stable (10-Aug-23)	1)CARE BBB+; Stable (31-Mar-23) 2)CARE BBB+; Stable (05-Dec-22)	1)CARE BBB; Stable (17-Mar-22) 2)CARE BBB; Stable (12-Oct-21)	1)CARE BBB; Stable (16-Mar-21) 2)CARE BBB; Stable (02-Apr-20)
2	Commercial Paper-Commercial Paper (Standalone)	ST	75.00	CARE A2	1)CARE A2 (20-Oct-23) 2)CARE A2	1)CARE A2 (31-Mar-23) 2)CARE A2 (05-Dec-22)	1)CARE A3 (17-Mar-22)	1)CARE A3 (16-Mar-21) 2)CARE A3 (02-Apr-20)

					(10-Aug-23)			
3	Fund-based-Long Term	LT	350.00	CARE BBB+; Stable	1)CARE BBB+; Stable (20-Oct-23) 2)CARE BBB+; Stable (10-Aug-23)	1)CARE BBB+; Stable (31-Mar-23) 2)CARE BBB+; Stable (05-Dec-22)	1)CARE BBB; Stable (17-Mar-22)	1)CARE BBB; Stable (16-Mar-21) 2)CARE BBB; Stable (02-Apr-20)
4	Debentures-Non-Convertible Debentures	LT	-	-	-	1)Withdrawn (31-Mar-23) 2)CARE A- (CE); Stable (05-Dec-22)	1)CARE BBB+ (CE); Stable (17-Mar-22) 2)CARE BBB+ (CE); Stable (29-Jul-21)	1)Provisional CARE BBB+ (CE); Stable (16-Mar-21)
5	Un Supported Rating	LT	-	-	-	1)Withdrawn (31-Mar-23) 2)CARE BBB+ (05-Dec-22)	1)CARE BBB (17-Mar-22)	-
6	Fund-based - LT-Term Loan	LT	1.16	CARE A- (CE); Stable	-	1)CARE A- (CE); Stable (27-Feb-23) 2)CARE A- (CE); Stable (30-Jun-22)	1)Provisional CARE A- (CE); Stable (30-Mar-22)	-
7	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB+	-	1)CARE BBB+ (27-Feb-23) 2)CARE BBB (30-Jun-22)	1)CARE BBB (30-Mar-22)	-
8	Debentures-Non-Convertible Debentures	LT	75.00	CARE BBB+; Stable	1)CARE BBB+; Stable (20-Oct-23) 2)CARE BBB+; Stable (10-Aug-23)	-	-	-
9	Debentures-Non-Convertible Debentures	LT	300.00	CARE BBB+; Stable	1)CARE BBB+; Stable (20-Oct-23)	-	-	-

LT: Long term; ST: Short term

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

Fund-based - LT-Term Loan	Detailed Explanation
A. Financial covenants	
1. Maximum CAR shall not be less than 20.00%	These covenants are required to be complied at all times by the issuer
2. Maximum ratio of par>30 and write off to GNPA shall be 8%.	
3. Maximum ratio of par>30 net of provision to consolidated tangible net worth shall be 15%.	
4. Minimum ratio of consolidated tangible net worth to gross loan shall be maintained at 20% post June 30, 2022.	
5. Minimum CAR shall not be less than 15.00%.	These covenants are required to be complied to at all times by the credit enhancer.
B. Non-financial covenants	Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Highly Complex
2	Unsupported Rating-Unsupported Rating (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 rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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