Incred Financial Services Limited

August 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Market Linked Debentures	25.00	CARE PP-MLD A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the rating assigned to the debt instruments of Incred Financial Services Limited (IFSL) (erstwhile KKR India Financial Services Ltd [KIFS]) continues to factor in the extensive experience of around two decades of IFSL's promoter and management team in the financial services segment. The rating also factors in continued healthy capitalization levels, diversification of the loan portfolio, a strong analytics-driven system for lending operations, improving scale of operations, and the company's profitability.

However, the rating remains constrained due to the moderate asset quality in some of the business segments and modest seasoning with limited track record of operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the profitability parameters, with return on total assets (ROTA) of more than 3.50% on a sustained basis.
- Significant increase in the scale of operations with improvement in asset quality on a sustained basis.

Negative factors

- Deterioration in the asset quality parameters with the net non-performing assets (NNPA) to tangible net worth (TNW) exceeding 10% on a sustained basis.
- Increase in gearing beyond 3x.

Analytical approach:

CARE Ratings Limited (CARE Ratings) has analysed the standalone credit profile of the company.

Outlook: Stable

The 'stable' outlook reflects the expectation of continued financial performance of the company while maintaining diversification in the retail lending portfolio. Also, the capitalisation level is expected to remain comfortable.

[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

Experienced promoter and management team

IFSL is promoted by Bhupinder Singh, Whole-time Director & CEO (Founder), who leads the operations of the company. With an experience of more than two decades, Mr. Singh was earlier associated with Deutsche Bank as Head of the Corporate Finance division and the Co-head of the Fixed Income, Equities, and Investment Banking divisions for the Asia-Pacific region. As on March 31, 2024, the company had a 10-member board with five independent directors. The board also has three Investors' representatives/nominees. Vivek Bansal, Chief Financial Officer, has an experience of two decades with companies like Fidelity Investments (London) and Standard Chartered (Mumbai). Prior to IFSL, Mr. Bansal served as the Deputy CFO and Group Head of Finance of YES Bank. Prithvi Chandrasekhar, Head of Risk Analytics and the PL business, has held various positions across several companies including Capital One and McKinsey over a professional stint of 25 years. Saurabh Jhalaria, who heads the business verticals, has over 18 years of work experience and was earlier Managing Director-Singapore operations at Deutsche Bank. Ashwin Sekar, who is the Chief Technology Officer, has over 15 years of experience in the tech industry. Prior to InCred, he was employed with Gain Credit for over 13 years (formerly known as Global Analytics). Krishna Bahety, Chief Risk Officer, has over 22 years of experience in credit risk management, underwriting, process control, portfolio management, and risk analysis across multiple product verticals. Prior to Incred, he was with Udaan as the Head of Policy and was responsible for development and implementation of various policies. He has also worked in various leadership roles with Magma Fincorp, First Rand Bank, Fullerton.

Healthy capitalization levels and low gearing levels

As on March 31, 2024, the capital to risk (weighted) assets ratio (CRAR) of the company stood at 30.4% as against the regulatory requirement of 15%, indicating a strong cushion over the regulatory requirement. Furthermore, the tangible net-worth of the company stood at ₹2,881 crore as on March 31, 2024 (as on March 31, 2023: ₹1,942 crore). The increase in tangible net worth is due to the equity infusion of Rs. 500 crores in Q3FY24 and internal accruals. The gearing further improved to 1.7x as on March 31, 2024, as against 2.0x as on March 31, 2023.

Diversified loan portfolio

The retail portfolio is well-diversified between various segments and, as on March 31, 2024, the assets under management (AUM) of the company stood at ₹ 9,039 crore; a 49% growth y-o-y, of which personal loans constituted 44% (March 2023- 42%), secured school financing and loan-against-property (LAP) – 8% (March 2023- 8%), student loans – 21% (March 2023- 17%), anchor and escrow-backed loans – 18% (March 2023- 21%), and lending to financial institutions (Fis) – 9% (March 2023- 10%).

The wholesale lending exposure of erstwhile KIFSL, which was Rs. 125 crores as on March 31, 2023, got fully repaid in FY24 on account of recoveries made by the company.

The company has also started co-lending under personal loans, student loans, and LAP, which forms 18% of the total AUM as on March 31, 2024.

The loan book is expected to remain largely diversified within the existing retail segments. However, Unsecured Personal Loan book constituted 44% of the AUM as on March 31, 2024, and the performance of the same will continue to remain key monitorable.

Improving earnings profile

During FY24, the company's gross disbursements was all-time high at ₹9,298 crore, leading to an increase in the AUM from ₹6,062 crore as on March 31, 2023, to ₹9,039 crore as on March 31, 2024. As a result, the total revenue of the company grew by 47% to ₹1,293 crore during FY24. Given the increase in the lending rates across segments, the average yield-on-advances grew from 17.2% in FY23 to 17.9% in FY24. However, the average cost of funds decreased from 10.6% in FY23 to 10.2% in FY24.

Consequently, upon increase of yield by 76 bps and decrease of cost of funds by 39 bps, the net interest margins (NIMs) improved to 10.3% in FY24 as against 9.2% in FY23. The operating expenses continued to remain high in FY24 at 5.5%, similar to FY23 levels of 5.6%, on account of the increased employee expenses, collection expenses, and branch cost. With increasing scale in business, this is expected to moderate below 5% in the next two fiscal years. The company made impairment reversal on the provisions made on the wholesale lending exposure of erstwhile KIFSL in FY24, leading to a negative credit cost of 0.3%. Given the improvement in the NIMs coupled with the declined credit costs, the company reported an increase in the profit-after-tax (PAT) to ₹315 crores in FY24 as against ₹121 crores in FY23, leading to ROTA of 4.4% (FY23: 2.4%). On account of the higher deferred tax during FY24, the PAT stood at ₹315 crores against the profit-before-tax (PBT) of ₹423 crore (FY23: ₹207 crore).

Key weaknesses

Moderate asset quality parameters

As on March 31, 2024, the gross non-performing assets (GNPA) of the company stood at 2.14% (NNPA: 0.85%) as against 2.06% as on March 31, 2023 (NNPA: 0.93%). In secured school financing (SSF) & LAP, the asset quality improved significantly to 1.58% as on March 31, 2024, from 9.51% as on March 31, 2023, on account of continuous efforts of the management towards recovery and collections of the loans. Further, the company had been cautious and slowed disbursement in secured school financing segment post covid. However, the GNPA under personal loan segment deteriorated and stood at 3.73% as on March 31, 2024, from 2.12% as on March 31, 2023. This was mainly on account of the increased delinquency in the partner originated portfolio specifically on account of one of the partners and change in the business model for this segment. In FY24 the overall credit cost was -0.3% on account of recoveries from wholesale lending segment and reversal of provisions made on the wholesale book. However, in FY25, the credit cost is expected to normalize.

Modest Seasoning with Limited track record of operations

The retail lending book was started in FY18, having a vintage of around six years. Although the retail AUM has been growing at a good rate year-on-year, its market position within the various segments stands modest. With the increasing scale of operations, the disbursements in FY24 were high at ₹9,298 crore as against ₹7,236 crore in FY23, and thereby the seasoning of these disbursements remains modest and needs to be monitored.

Liquidity: Strong

As on March 31, 2024, the company had a total liquidity of ₹684 crore by way of cash and bank balance and liquid investments as against the debt obligations of ₹775 crore for the next three months. In addition, it had undrawn committed bank lines of ₹99 crore.

The company has successfully raised funds from a large number of lenders including public sector undertakings (PSUs), private banks and non-banking financial companies (NBFCs) and the total number of lenders are about 30.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Market Linked Notes
Non Banking Financial 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)

On August 17, 2021, IFSL (the erstwhile KIFS) entered into a strategic transaction with IPFL (the erstwhile Incred Financial Services Ltd), where IFSL and the retail non-banking finance company of IPFL will combine to form an enhanced lending business. With effect from April 01, 2022, identified assets and liabilities of IPFL got transferred to IFSL and the merged entity is now led by the management team of IPFL. Bhupinder Singh, the erstwhile CEO of IPFL, is now the CEO of IFSL. Also, the shareholders of IPFL hold a majority stake, i.e., 73.4% and the KKR consortium holds 26.6% in the merged entity.

The combined entity is a new-age financial services platform that leverages technology and data-science to make lending quick and easy and is engaged in granting loans in the nature of retail (personal loan, education loan) and SME loans (SSF, LAP, anchor-backed loans, lending to FIs). As on March 31, 2024, the AUM stood at ₹9,039 crore.

Brief Financials (₹ crore)	FY22(A)	FY23(A)	FY24 (A)
Total income	521	877	1,292
PAT	36	121	315
CRAR (%)	28.05	33.40	30.44
Total assets (net of intangible and deferred tax assets)	4,002	6,112	8,234
Gearing (times)	2.58	2.01	1.74
Net NPA (%)	1.43	0.91	0.85
ROTA (%)	1.07	2.39	4.41

A: Audited 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
Debentures-Market Linked Debentures	INE321N07319	08-Nov-2023	Nifty 50 Index Linked	31-Aug-2025	25.00	CARE PP-MLD A+; 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	-	-	1)CARE A+; Stable (12-Jun-24) 2)Withdrawn (12-Jun-24)	1)CARE A+; Stable (11-Oct-23) 2)CARE A+; Stable (24-Aug-23) 3)CARE A+; Stable (01-Aug-23) 4)CARE A+; Stable (05-Apr-23)	1)CARE A+; Stable (08-Aug-22)	-
2	Debentures-Market Linked Debentures	LT	-	-	-	1)Withdrawn (01-Aug-23) 2)CARE PP-MLD A+; Stable (05-Apr-23)	1)CARE PP-MLD A+; Stable (08-Aug-22)	-
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Aug-23) 2)CARE A+; Stable (05-Apr-23)	1)CARE A+; Stable (08-Aug-22)	-
4	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	1)Withdrawn (12-Jun-24)	1)CARE A1+ (11-Oct-23) 2)CARE A1+ (24-Aug-23) 3)CARE A1+	1)CARE A1+ (08-Aug-22)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
						(01-Aug-23) 4)CARE A1+ (05-Apr-23)		
5	Debentures-Market Linked Debentures	LT	25.00	CARE PP-MLD A+; Stable	1)CARE PP-MLD A+; Stable (12-Jun-24)	1)CARE PP-MLD A+; Stable (11-Oct-23) 2)CARE PP-MLD A+; Stable (24-Aug-23) 3)CARE PP-MLD A+; Stable (01-Aug-23) 4)CARE PP-MLD A+; Stable (05-Apr-23)	1)CARE PP-MLD A+; Stable (08-Aug-22)	-

LT: Long term; ST: Short term; LT/ST: 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	Debentures-Market Linked Debentures	Highly Complex

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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