# True Credits Private Limited

October 03, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 270.00 | CARE BBB-; Stable | Reaffirmed |
| Non-convertible debentures | 100.00 | CARE BBB-; Stable | Reaffirmed |
| Commercial paper | 40.00 | CARE A3 | Reaffirmed |
| Non-convertible debentures | 250.00 | CARE BBB-; Stable | Assigned |
| Commercial paper | 30.00 | CARE A3 | Assigned |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Reaffirmation of ratings for True Credits Private Limited derives strength from its comfortable capitalisation profile supported by regular equity infusion from its promoters and adequate liquidity position. Ratings also derive strength from its healthy profitability profile driven by relatively high yields and high processing charges generated on its short-term unsecured personal loan segment. However, ratings remain constrained considering risks associated with the unsecured nature of high yielding retail loans provided to the borrowers, though granular nature of the same provides comfort to the asset quality profile. CARE Ratings Limited (CARE Ratings) further notes that digital lending space is an evolving space with increased regulatory scrutiny. Also, TCPL's concentrated resource profile, despite improving with lending mainly from non-banking finance companies (NBFCs), acts as a constraining factor.

## Rating sensitivities: Factors likely to lead to rating actions

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

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

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

- Any adverse regulatory development in the fintech lending space.
- Decline in capital levels or deterioration in leverage with overall gearing of more than 3.5x.
- Significant rise in the credit costs, leading to deterioration in profitability.

## Analytical approach: Standalone

## Outlook: Stable

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

## Detailed description of key rating drivers

### Key strengths

**Comfortable capitalisation levels**

TCPL is a wholly owned subsidiary of M/s Balancehero India Private Limited (BHI), which in turn is wholly owned by M/s Balancehero Co. Limited Korea (BHK) based at South Korea. BHI holds a prepaid payment instruments (PPI) license and offers

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

wallet and payment aggregator services. Charlie Lee, former CEO at Access Mobile and former Head of Asia Pacific Business at Real Networks, is the promoter and co-founder of BHK, which has been raising equity and convertible bonds at the holding company level in South Korea and infusing it in the form of equity in TCPL, through BHI. Consequently, tangible net worth (TNW) has been increasing y-o-y from ₹229 crore as on March 31, 2023, to ₹313 crore as on June 30, 2024. The company's capital adequacy profile although declining remains comfortable with the overall capital adequacy ratio (CAR) of 38% as on March 31, 2024, down from 68% as on March 31, 2023. The decline in CAR was due to a substantial jump in the loan book which grew by 126% y-o-y from ₹276 crore as on March 31, 2023, to ₹625 crore as on March 31, 2024, and Reserve Bank of India (RBI) guidelines issued in November 2023, in which risk weight for NBFC's exposure to unsecured personal loan was increased by 25%. The gearing doubled from 0.7x as on March 31, 2023, to 1.4x as on March 31, 2024, due to substantial increase in borrowings which grew by 167% y-o-y in the form of term loan and NCDs from NBFCs. BHI infused ₹65 crore in TCPL in the last financial year and ₹50 crore in the current financial year till July 31, 2024. Going forward, CARE Ratings expects the promoters to continue infusing equity in the company to fund future growth.

**Moderate asset quality**

TCPL provides retail unsecured loans carrying an average ticket size of ₹20,000-₹25,000 to salaried and self-employed individuals with an average tenor of six months.. The company plans to increase the tenor to 12 months for better realisation of revenue. More than 95% of the disbursals are made to customers with a CIBIL score of greater than 700. It charges interest rate based on risk-based pricing model. The collection process is managed internally till 30+DPD. After 30 days DPD, the case is transferred to external agency for collection. Headline asset quality metrics remains healthy with gross non-performing asset (GNPA) ratio of 0.4% as on March 31, 2024, recognised on 150+ DPD basis. The company will recognise NPA on 120+ DPD by the end of March 2025 and it will move to 90+ DPD by the end of March 2026. Healthy asset quality metrics were driven by the company's conservative provisioning policy wherein the company makes 100% provisioning for the NPAs. Due to this, the credit cost/average managed assets remained high although declined from 38.5% in FY23 to 23.5% in FY24. On a disbursement basis (including managed book), credit cost improved from 9.2% for FY23 to 6.0% for FY24. CARE Ratings notes that the rates charged by the company on its loan products provide sufficient buffer to absorb credit losses.

**High profitability**

TCPL reported disbursements of ₹3,361 crore (including ₹1,077 crore from off book lending) and total income of ₹670 crore for FY24 (refers to April 1 to March 31), as against total income of ₹371 crore in FY23, on disbursements of ₹1,746 crore. TCPL has a partnership arrangement with other NBFC partners, which helps drive its off book growth. The off-book portfolio is stable and diversified, as it does not depend heavily on single partner. The company's assets under management (AUM) surged significantly, increasing from ₹345 crore as on March 31, 2023, to ₹1,122 crore by June 2024, of which, 61% comprised on book portfolio while the rest 39% was through off-book lending. The company's profitability is on an increasing trend with a return on total assets (ROTA) of 5.8% for FY24, as compared to 4.3% as on March 31, 2023. ROTA of 5.8% is driven by high annual percentage rate (APR) in the form of interest charged and sizable processing fees on each disbursement. The company has been reducing the APR charged to customers gradually. However, it still remains high as compared to peers. Operating expenses/ average total assets remained high at 55.8% for FY24. On a disbursement basis (including managed book), operating expenses stood at 10.4% for FY24. Going forward, the company plans to reduce APR further and increase the average tenor and average ticket size of loan. As the company progresses with plans to normalise the APR, its impact on profitability remains to be seen. CARE Ratings continues to monitor the company's ability to maintain its profitability profile.

## Key weaknesses

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

The company received NBFC license from the RBI in October 2019 and started disbursing unsecured personal loans in January 2020. Loan book increased in FY24 from ₹276 crore as of March 2023 to ₹625 crore as of March 2024. While the shorter tenure of the loan portfolio provides a level of seasoning, the company's vintage remains low. Subsequently, the quality of underwriting through different economic cycles and geographies is yet to be established. The company has focused on developing its human capital by hiring experienced professionals in the risk management and data science departments. Although it has a robust in-house underwriting engine that has been consistently improving, CARE Ratings observes that credit risk models utilising data analytics and machine learning will continue to evolve over time and as the portfolio expands.

**Concentrated resource profile**

The company's borrowing profile, although improving, remains concentrated with most of the borrowing base in the form of term loans NCDs from external NBFCs and other financial institutions as on June 30, 2024. Of the total borrowings amounting to ₹488 crore, 61% are term loans, 38% are NCDs, and 1% are working capital demand loans. The borrowing profile also includes one small finance bank and three private banks, with the remainder of the borrowings coming from NBFCs and other financial institutions. Going forward, the company's ability to diversify its resource profile at competitive rates will be a key rating monitorable.

**Evolving regulatory space**

Ratings take note of the regulatory risk associated with entities operating in digital lending as the regulations are still evolving. RBI has issued various guidelines for this sector, such as increase in risk weights for unsecured consumer loans, including credit cards, by 25% for banks and NBFCs (November 16, 2023), and revised guidelines for P2P lending platforms (August 2024), which will impact the companies in this sector. As digital lending continues to grow in momentum and scale, the evolving regulations expose the industry to regulatory risks. The impact on fintech players varies depending on the business model of each entity.

## Liquidity: Adequate

As on June 30, 2024, the company's asset liability management (ALM) profile had no negative cumulative mismatches till the next one year. As on June 30, 2024, the company had debt repayments obligations of ₹477 crore up to one year, against which, the company had inflow from advances of ₹625 crore. Above the said positive mismatch, the company maintains unencumbered liquidity in the form of cash and cash equivalents to the tune of ₹145 crore. Liquidity remains supported by collections from its shorter tenure loan book and medium-term borrowings.

## Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Non Banking Financial Companies
Short Term Instruments

## About the company and industry

## Industry classification

| Macroeconomic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Financial services | Financial services | Finance | Non-banking financial company (NBFC) |

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

TCPL secured NBFC license from RBI in October 2019. It is into lending business in the form of personal loans to individual borrowers. Lending is between ₹1,000 and ₹100,000 per borrower with average ticket size of ₹25,000. TCPL carries out lending through App, operated by BHI, which is called the 'True Balance app'. It provides only short-term lending (maximum 12-month lending to borrower) with interest rate based on risk-based pricing model. The company offers lending products such as cash loan and level-up loan. Lending business is owned and housed under TCPL. The company uses digital lending channels for marketing, with around 59% being repeat customers. Social networking sites including Facebook and Google are used for placing advertisements of different loans offered. SMS-based advertisements are sent to target users.

| Brief Financials (₹ crore) | March 31, 2023(A) | March 31, 2024 (A) | Q1FY25(UA) |
|---|---|---|---|
| Total operating income | 371 | 670 | 211 |
| PAT | 16 | 37 | 5 |
| Interest coverage (times) | 1.7 | 1.7 | 1.2 |
| Total assets | 411 | 849 | 903 |
| Net NPA (%) | 0.00 | 0.00 | 0.00 |
| ROTA (%) | 4.3 | 5.8 | 2.4 |

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

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** 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 and Rating Outlook |
|---|---|---|---|---|---|---|
| Non-convertible debentures | Proposed | | | | 100.00 | CARE BBB-; Stable |
| Commercial paper | Proposed | | | | 40.00 | CARE A3 |
| Non-convertible debentures | Proposed | | | | 250.00 | CARE BBB-; Stable |
| Commercial paper | Proposed | | | | 30.00 | CARE A3 |
| Fund-based - LT-Term loan | - | - | - | 24-Oct-2024 | 270.00 | CARE BBB-; Stable |

**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 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* | 270.00 | CARE BBB-; Stable | 1)CARE BBB-; Stable (24-Sep-24) | 1)CARE BBB-; Stable (25-Sep-23)<br><br>2)CARE BBB-; Stable (08-Sep-23) | 1)CARE BBB-; Stable (30-Jan-23)<br><br>2)CARE BBB-; Stable (26-Aug-22) | - |
| 2 | Commercial paper-Commercial paper (Standalone) | ST* | 40.00 | CARE A3 | 1)CARE A3 (24-Sep-24) | 1)CARE A3 (25-Sep-23)<br><br>2)CARE A3 (08-Sep-23) | 1)CARE A3 (30-Jan-23) | - |
| 3 | Debentures-Non-convertible debentures | LT* | 100.00 | CARE BBB-; Stable | 1)CARE BBB-; Stable (24-Sep-24) | 1)CARE BBB-; Stable (25-Sep-23) | - | - |
| 4 | Commercial paper-Commercial paper (Standalone) | ST* | 30.00 | CARE A3 | | | | |
| 5 | Debentures-Non-convertible debentures | LT* | 250.00 | CARE BBB-; Stable | | | | |

*LT: Long term; ST: Short term.

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

**Annexure-4: Complexity level of 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-Term loan | Simple |

**Annexure-5: Lender details**

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| To view lender-wise details of bank facilities please click here |

**Note on 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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**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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