December 20, 2022

Akara Capital Advisors Private Limited: PP-MLD [ICRA]BBB (Stable) assigned; ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Market linked debentures	-	30.00	PP-MLD [ICRA]BBB (Stable); assigned
Long-term fund-based bank lines	75.00	75.00	[ICRA]BBB (Stable); reaffirmed
Commercial paper	80.00	80.00	[ICRA]A3+; reaffirmed
Non-convertible debentures	370.00	370.00	[ICRA]BBB (Stable); reaffirmed
Total	**525.00**	**555.00**	

**Instrument details are provided in Annexure I*

Rationale

To arrive at Akara Capital Advisors Private Limited's (ACAPL) ratings, ICRA has taken a consolidated view of the credit profiles of ACAPL and Group company, EQX Analytics Private Limited (EQXAPL), owing to their business linkages, common management and shared infrastructure. ACAPL provides unsecured personal loans of up to Rs. 5 lakh to salaried individuals through the Group's technology platform and has a pan-India presence. The Group's technology platform, known as StashFin, which has been built in-house, is a part of EQXAPL and is currently used by ACAPL and its co-lending partners. ACAPL and EQXAPL are wholly-owned subsidiaries of Morus Technologies Pte. Ltd (MTPL), the Singapore-based holding company, which is backed by foreign investors like Tencent Group, Fasanara Capital, Uncorrelated Ventures, etc.

The ratings factor in ACAPL's adequate capitalisation profile with a consolidated net worth of Rs. 324.8 crore and a low gearing of 1.5 times as on September 30, 2022 (Rs. 278.7 crore and 1.26 times, respectively, as on March 31, 2022; Rs. 95.2 crore and 0.6 times, respectively, as on March 31, 2021). The gearing, adjusted for the first loss default guarantee (FLDG) commitments, stood at 1.6 times as on September 30, 2022. The improvement in the capitalisation was driven by a capital infusion of Rs. 197.6 crore in FY2022 and Rs. 39 crore in H1 FY2023. This helped the company improve its scale of operations further with its assets under management (AUM) increasing to Rs. 725 crore as on September 30, 2022 (Rs. 92.0 crore as on March 31, 2021). The ratings also factor in the improved visibility on further capital support for ACAPL from the parent, MTFL, following the conversion of debt (preference shares/compulsory convertible debentures/optionally convertible debentures) amounting to ~Rs. 409 crore into equity in Q2 FY2023. With ACAPL and EQX being the sole investments of MTPL, ICRA believes that this equity will be available in entirety for ACAPL as growth capital.

ICRA notes the improvement in ACAPL's funding profile with the company raising external commercial borrowings (ECBs) from investors at relatively competitive rates while diversifying the domestic lender base. ACAPL also has additional committed external ECB lines, which would support the business growth, going forward. Notwithstanding this, the company would need to continuously expand the lender base, going forward as well, given its high growth plans. The ratings also consider ACAPL's granular retail portfolio, comprising small-ticket loans to individuals.

The ratings are, however, constrained by the subdued profitability indicators on a consolidated basis with the Group reporting net losses since inception till FY2022 due to its high operating and credit costs. ACAPL has stopped the practice of incurring 100% of the FLDG costs since December 2022, in compliance with the digital lending norms of the Reserve Bank of India (RBI). This is expected to moderate credit costs further. At the same time, operating expenses (12.0% in relation to average assets for H1 FY2023) moderated with the improvement in scale. Additionally, the net interest margin (NIM) improved due to the increase in yields. Hence, as expected, the Group reported a consolidated net profit of Rs. 7.1 crore and a return on assets (RoA) of 1.8% in H1 FY2023. ICRA expects the profitability to improve, going forward, supported by some improvement in the NIM, lower credit costs and higher operating efficiency with economies of scale.

The ratings also factor in the inherent vulnerability associated with the Group's portfolio, given the unsecured nature of the loans. Nevertheless, the asset quality indicators have remained range-bound so far with 90+ days past due (dpd) of 3.8% as on September 30, 2022 and overall credit costs of 1.0% in relation to cumulative disbursements (since FY2020). Further, the regulatory landscape with respect to fintech lenders is currently evolving; thus, the impact of regulations on the company's business operations would be a monitorable. Overall, ACAPL's ability to profitably scale up the business while maintaining prudent capitalisation and controlling the asset quality would be a key monitorable.

Key rating drivers and their description

Credit strengths

Adequate capitalisation profile for current scale of operations; committed capital support from parent – ACAPL's capitalisation profile is adequate for the current scale of operations with a consolidated net worth of Rs. 324.8 crore and a low gearing of 1.5 times as on September 30, 2022. The company raised Rs. 197.6 crore FY2022 and Rs. 39 crore in H1 FY2023 from its parent. Regular capital infusions by the parent have resulted in a comfortable gearing of 1.5 times as on September 30, 2022 (gearing of 1.4 times for ACAPL (standalone) and a capital-to-risk weighted assets ratio (CRAR) of 45.9% as on September 30, 2022). There is improved visibility of further capital support for ACAPL from the parent following the conversion of debt (preference shares/compulsory convertible debentures/optionally convertible debentures) amounting to ~Rs. 409 crore into equity in Q2 FY2023. With ACAPL and EQX being the sole investments of MTPL, ICRA believes that this equity will be available in entirety for ACAPL as growth capital. ICRA notes that the capital infusion would be made in tranches for efficient capital management.

However, the leverage is expected to remain below 3 times. As a result, ACAPL would continue to need equity infusions from its parent over the medium term to maintain prudent capitalisation levels. Also, prudent capitalisation is one of the key mitigants against delinquencies and other credit risks associated with the Group's business. ICRA also notes that in addition to capital support, the investors have extended support to ACAPL in the form of ECBs with further commitment on this front as well, which would support the business growth going forward.

Granular retail portfolio – ACAPL's portfolio is granular, comprising small-ticket loans to individuals with a ticket size in the range of Rs. 1,000 – Rs. 5 lakh. About 8% of the AUM comprised very small-ticket loans of less than Rs. 10,000 and the balance comprised loans of up to Rs. 5 lakh as on September 30, 2022. The short tenure of the loans (1-36 months) also provides support to the liquidity profile.

Credit challenges

Modest scale of operations; timely raising of funds critical for growth – ACAPL's AUM grew at a high rate of 392% to Rs. 559 crore as on March 31, 2022 from Rs. 114 crore as on March 31, 2021, albeit on a small base. The AUM grew further to Rs. 725 crore as on September 30, 2022, registering an annualised growth rate of 59%. The high growth was supported by disbursements of Rs. 1,201 crore in FY2022 and Rs. 936 crore in H1 FY2023 compared to Rs. 172 crore in FY2021. Though the company has a pan-India presence in terms of its borrowers, the scale of operations remains limited. This is also partly due to the short tenure of the loans and hence faster amortisation. ICRA believes achieving economies of scale would remain pivotal for the Group to attain net profitability on a sustainable basis. Hence, its ability to raise funds (both debt and equity) in a timely manner will be critical for growth.

Limited, albeit improving, financial flexibility – ACAPL's financial flexibility remains limited with high dependency on larger non-banking financial companies (NBFCs) for its funding needs. The average cost of funds remains high in the range of 10-15% with the average tenure of borrowing at ~23 months. In this regard, the committed ECB lines from its investors of ~Rs. 1,500 crore, of which Rs. 159 crore has already been disbursed, provides comfort. The infusion of ECB lines in the borrowing mix is also expected to moderate the cost of borrowing to some extent, thereby improving the NIM. ICRA also notes the recent improvement in the company's domestic borrowing mix with lenders being added from the banking as well as non-banking sector.

Muted profitability on consolidated basis; operating efficiency expected to improve with scale – Though ACAPL has reported modest profitability over the last few fiscals (last three years' (FY2019-FY2022) average RoA of 0.9%) on a standalone basis, the profitability has remained muted on a consolidated basis with the Group reporting losses since inception till FY2022 due to the high operating and credit costs. ACAPL reported a net loss of Rs. 14.0 crore in FY2022 on a consolidated basis compared with a net loss of Rs. 11.6 crore in FY2021. However, it reported a net profit of Rs. 7.1 crore in H1 FY2023, driven by the improvement in the margins along with the moderation in the operating costs and credit costs. ACAPL has stopped the practice of incurring 100% of the FLDG costs since December 2022, in compliance with the RBI's digital lending norms, which will result in a further moderation in the credit costs. ICRA expects the profitability to improve, going forward, supported by the improvement in the NIM, lower credit costs and higher operating efficiency with economies of scale, provided the company is able to maintain strict control over fresh slippages.

Improved asset quality indicators, though sustainability through economic cycles remains to be seen – ACAPL started operations in 2017 and witnessed a compound annual growth rate (CAGR) of ~63% in the last three years. With an average loan tenure of 14-15 months and a large portion of the loans being originated in the later part of FY2022 (disbursement of Rs. 1,201 crore in FY2022), portfolio seasoning remains low and the asset quality indicators are yet to be tested across economic cycles. The inherent riskiness in ACAPL's portfolio also remains high due to the unsecured nature of the loans.

The company's gross non-performing advances (GNPAs; recognised on 90+ dpd basis) stood at 3.8% as on September 30, 2022. The GNPA%, including write-offs/FLDG expenses, on a consolidated basis remained high at 13.8% of AUM as on September 30, 2022 (13.2% as on March 31, 2022). The 90+ dpd stood at 1.0%, basis cumulative disbursements (since FY2020), as on September 30, 2022 while the overall credit costs, in relation to cumulative disbursements, stood at 1.9% (since FY2020). ICRA notes that ACAPL has developed an adequate risk management system to detect fraud and its ability to control slippages, manage fraud risk and maintain good credit underwriting standards would be a key rating monitorable, going forward.

Liquidity position: Adequate

ACAPL's liquidity position is adequate with no negative cumulative mismatches in the asset-liability management (ALM) statement as on September 30, 2022 owing to the short tenure of the loan book and sufficient on-balance sheet liquidity. The company's unencumbered cash and bank balance stood at Rs. 34 crore. As on September 30, 2022, the expected inflows from advances in the next 1 year stood at Rs. 430 crore, which is sufficient to cover debt repayments of Rs. 258 crore during this period.

MTPL had ~$17-million cash on its balance sheet as on September 30, 2022 on a provisional basis, providing further liquidity support to ACAPL at the parent level.

Rating sensitivities

Positive factors – An increase in the scale of operations along with an improvement in the profitability indicators, while maintaining good asset quality and a prudent capitalisation structure on a sustained basis, could lead to a rating upgrade.

Negative factors – A decline in the scale of operations or a deterioration in the asset quality indicators, resulting in pressure on the profitability indicators, could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's rating methodology for non-banking finance companies ICRA's rating approach – Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation

About the company

ACAPL is a Delhi-based non-deposit taking NBFC registered with the Reserve Bank of India (RBI) since 2016. It started operations in 2017. The company primarily provides unsecured short-term personal loans to salaried individuals through web and mobile platforms. It was started by Mr. Tushar Aggarwal, Ms. Shruti Aggarwal and Mr. Parikshit Chitalkar, who have several years of experience in the financial services industry. ACAPL is currently owned by MTPL, a Singapore-based neobanking start-up backed by investors like Tencent Group, Fasanara Capital, Altara Ventures, Uncorrelated Ventures, etc.

ACAPL is a 100% subsidiary of MTPL (holding company incorporated in Singapore). The Group has another 100% subsidiary, EQX Analytics Private Limited (EQXAPL), which houses the technology platform known as StashFin and sources leads. The technology platform is used by ACAPL and other co-lenders for lending to customers.

On a standalone basis, ACAPL reported a profit after tax (PAT) of Rs. 4.3 crore in FY2022 on a total asset base of Rs. 636.4 crore compared with a PAT of Rs. 1.8 crore in FY2021 on a total asset base of Rs. 132.2 crore as on March 31, 2021. In H1 FY2023, the company reported a PAT of Rs. 11.1 crore on a total asset base of Rs. 806.5 crore (based on provisional financials). As on September 30, 2022, the company's standalone net worth was Rs. 328.9 crore with a gearing of 1.4 times.

On a consolidated basis (ACAPL & EQXAPL), the Group reported a loss of Rs. 14.0 crore in FY2022 on a total asset base of Rs. 693.8 crore as on March 31, 2022 compared with a loss of Rs. 11.6 crore in FY2021 on a total asset base of Rs. 192.9 crore as on March 31, 2021. In H1 FY2023, the Group (on a consolidated basis) reported a PAT of Rs. 7.1 crore on a total asset base of Rs. 907.7 crore (based on provisional financials) as on September 30, 2022. As on September 30, 2022, the company's consolidated net worth stood at Rs. 324.8 crore with a gearing of 1.5 times.

Key financial indicators (audited)

ACAPL (standalone)	FY2021/Mar-21	FY2022/Mar-22	H1 FY2023/Sep-22*
Total income	20.5	48.9	54.4
Profit after tax	1.8	4.3	11.1
Net worth	76.7	278.8	328.9
Loan book (gross)	91.8	513.6	601.9
Total assets	132.2	636.4	806.5
Return on assets	1.5%	1.1%	3.1%
Return on net worth	3.2%	2.4%	7.3%
Gross stage 3	0.0%	0.0%	3.8%
Net stage 3	0.0%	0.0%	2.9%
Gross gearing (times)	0.62	1.21	1.4
Solvency (net stage 3/ net worth)	0.0%	0.0%	5.2%
CRAR	55.1%	43.3%	45.9%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Provisional*

Key financial indicators (audited)

ACAPL (consolidated)	FY2021/Mar-21	FY2022/Mar-22	H1 FY2023/Sep-22*
Total income	29.6	97.0	97.0
Profit after tax	-11.6	-14.0	7.1
Net worth	95.2	278.7	324.8
Loan book (gross)	91.8	513.6	601.9
Total assets	192.9	693.8	907.7
Return on assets	-6.6%	-3.2%	1.8%
Return on net worth	-13.8%	-7.5%	4.7%
Gross stage 3	0.0%	0.0%	3.8%
Net stage 3	0.0%	0.0%	2.9%
Gross gearing (times)	0.6	1.3	1.5
Solvency (net stage 3/ net worth)	0.0%	0.0%	5.3%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)							Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of November 30, 2022 (Rs. crore)	Date & Rating in FY2023				Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Dec 20, 2022	Oct 20, 2022	Oct 03, 2022		Mar 11, 2022	Dec 09, 2021	-	-
1	Long-term term loans	LT	75.00	0.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
2	Non-convertible debentures	LT	370.00	117.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)		[ICRA]BBB- (Stable)	-	-	-
3	Market linked debentures	LT	30.00	0.00	PP-MLD [ICRA]BBB (Stable)	-	-		-	-	-	-
4	Commercial paper	ST	80.00	0.00	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+		[ICRA]A3			

LT – Long term, ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term term loans	Simple
Non-convertible debentures	Simple
Market linked debentures	Simple
Commercial paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details as on September 30, 2022

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and outlook
NA	**Proposed term loans**	NA	NA	NA	75.00	[ICRA]BBB (Stable)
INE08XP07027	**NCD**	Mar-16-2022	14.55%	Mar-15-2024	20.00	[ICRA]BBB (Stable)
INE08XP07019	**NCD**	Mar-31-2022	13.17%	Jul-03-2023	40.00	[ICRA]BBB (Stable)
INE08XP07035	**NCD**	Oct-14-2022	13.05%	Apr-14-2024	27.00	[ICRA]BBB (Stable)
INE08XP07043	**NCD**	Nov-01-2022	11.04%	Nov-08-2023	30.00	[ICRA]BBB (Stable)
Yet to be placed	**NCD**	NA	NA	NA	253.00	[ICRA]BBB (Stable)
Yet to be placed	**Commercial paper**	NA	NA	NA	80.00	[ICRA]A3+
Yet to be placed	**MLD**	NA	NA	NA	30.00	PP-MLD [ICRA]BBB (Stable)

Source: Company, ICRA Research

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Akara Capital Advisors Private Limited	Rated entity	Full consolidation
EQX Analytics Private Limited	Group company with same parent	Full consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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