

August 27, 2024

Lentra AI Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Compulsorily convertible debentures	7.00	7.00	[ICRA]BB- (Stable); reaffirmed
Total	7.00	7.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of Lentra AI Private Limited (LAPL) factors in the extensive experience of its promoters in the software solutions/ information technology (IT) services sector and its established relationships with reputed customers in the financial services domain. Its client base includes top private banks and NBFCs, which use its extensive cloud-based lending platform. LAPL's lending platform consists of tools, features, and integrations required for KYC and compliance with onboarding, servicing, and beyond for all types of lending, which helps the customers to lend in an effective manner. The institutional equity/preference shareholders of the company include HDFC Bank Limited, Bessemer India Capital Holdings Limited, SIG Global India Funds LLP, Citi Venture INC, MUFG Bank Ltd and others.

The company recorded revenues of Rs. 175 crore, a healthy YoY growth of 21% in FY2024, supported by healthy traction of products with existing customers and new client addition. ICRA expects the company to sustain its revenue growth momentum supported by expansion of the client base, widening of service offerings and geographic presence. ICRA also notes the fundraise of Rs. 370 crore in FY2023 and FY2024, out of which Rs. 221 crore has come in FY2024 from various investors, strengthening its capital structure and liquidity position supported by sizeable cash and bank balances. The funds are expected to support LAPL's growth plans, as it continues to invest in its platform, sales and marketing team and expansion in the global markets.

The rating is, however, constrained by LAPL's modest scale of operations, which coupled with continued investments on product development, employee base and geographical expansion resulted in operating deleverage and negative cash accrual generation. The company reported operating losses in FY2024, however, the losses are expected to reduce over the near term with scaling-up of operations and cost-rationalisation initiatives taken by the management. Nonetheless, successful scaling-up of operations and achievement of operating profitability over the near to medium term are monitorables. LAPL is also exposed to high client concentration risk with its top-five clients generating around 60% of its revenues; although the same is mitigated to some extent by repeat orders. Moreover, the company faces challenges due to high dependence on a single end-user industry, i.e., financial services, which makes its business operations vulnerable to industry-specific risks.

The Stable outlook on the rating reflects ICRA's opinion that LAPL will continue to benefit from its established relationships with reputed clients and favourable demand outlook, enabling it to scale-up its operations and improve its profit margins.

Key rating drivers and their description

Credit strengths

Extensive experience of founder in the IT services sector – LAPL's key promoter, Mr. D. Venkatesh, has been in the IT software solutions/services business for over three decades and is supported by a qualified and experienced management team. This enables the company to continually retain its clients and acquire new ones.

Established relationships with reputed customers from financial services sector – LAPL enjoys established relationships with its reputed client base of various entities in the financial services domain. Majority of its customers are reputed private & public sector banks and NBFCs. The company continues to widen its service offerings, which has enabled it to acquire new customers in recent years.

Comfortable capital structure led by investor funding – The company’s capital structure remains comfortable, supported by total investor fund infusion of Rs. 370 crore in FY2023 and FY2024 by various investors such as Bessemer India Capital Holdings Limited, SIG Global India Funds LLP, Citi Venture INC, MUFG Bank Ltd and VY Dharana capital fund. LAPL has limited debt (comprising only of CCD of Rs. 7 crore) and healthy net-worth base, supported by the fundraise. While LAPL has reported negative cash accruals in the past fiscal, the funding has supported its liquidity position. The healthy fundraise is expected to support LAPL’s growth plans, as it continues to invest in its platform, sales and marketing team and expansion in the global markets.

Credit challenges

Moderate scale of operations resulting in operating deleverage and losses – LAPL’s scale of operations remained moderate, with operating income (OI) of Rs. 175 crore in FY2024. While it reported a healthy revenue growth of 21% YoY, the moderate scale limits the benefits arising from economies of scale to some extent. Moreover, continued investment in sales and marketing and high employee expenses led to operating losses. ICRA expects healthy revenue growth and improvement in profitability in the medium term, supported by a lower base, widening of service offerings, investment in sales and marketing and expansion in the global markets.

Exposed to high client concentration risk and dependence on single end-user industry – LAPL faces high client concentration risk with its top-five clients contributing ~60% to its total revenue. However, its reputed clientele providing repeat orders offers comfort to an extent. At present, LAPL caters to a single end-user industry, financial services (lenders), which exposes it to industry-specific risks.

Liquidity position: Adequate

The company’s liquidity position remains **adequate**, supported by sizeable cash/liquid investments as on June 30, 2024, despite continued losses. LAPL does not have any scheduled debt repayment in the near to medium term. It is likely to report negative cash accruals in FY2025 as well, however ICRA notes that the company has sufficient available to fund its operations.

Rating sensitivities

Positive factors – ICRA could upgrade LAPL’s rating, if the company demonstrates healthy revenue growth and turnaround in its profitability, while maintaining adequate liquidity.

Negative factors – Pressure on LAPL’s rating could arise, if the company incurs higher-than-anticipated losses or exhibits a slowdown in ramping-up of operations, on a sustained basis. The rating could also be downgraded in case any stretch in receivables days impacts its liquidity position, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology IT – Software & Services
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

LAPL, incorporated in 2019, is a cloud-based software product company, operating on a Software as a Service (SaaS) model where its applications empower its clients (banks and NBFCs) to lend in an effective and easy manner. Lentra's lending platform has the tools, features and integrations required for KYC, compliance to onboarding, servicing, collections and beyond. Each product on the platform can handle credit risk, decisioning and management.

Key financial indicators (audited)

LAPL - Standalone	FY2023	FY2024*
Operating income	144.9	175.0
PAT	(103.0)	(170.2)
OPBDIT/OI	-73.8%	-106.2%
PAT/OI	-71.1%	-97.3%
Total outside liabilities/Tangible net worth (times)	0.1	0.4
Total debt/OPBDIT (times)	(0.2)	(0.0)
Interest coverage (times)	(100.2)	(362.7)

Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Compulsorily Convertible Debentures	Long Term	7.00	Aug 27, 2024	[ICRA]BB-(Stable)	Aug 28, 2023	[ICRA]BB-(Stable)	Aug 29, 2022	[ICRA]BB-(Stable)	Aug 23, 2021	[ICRA]BB-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Compulsorily Convertible Debentures	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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0KKQ08019	Long Term – Compulsorily Convertible Debentures	Nov-2019	0.001%	Oct-2029	7.00	[ICRA]BB- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 022 6114 3400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

Charvi Sagar
+91 124 4545 373
charvi.sagar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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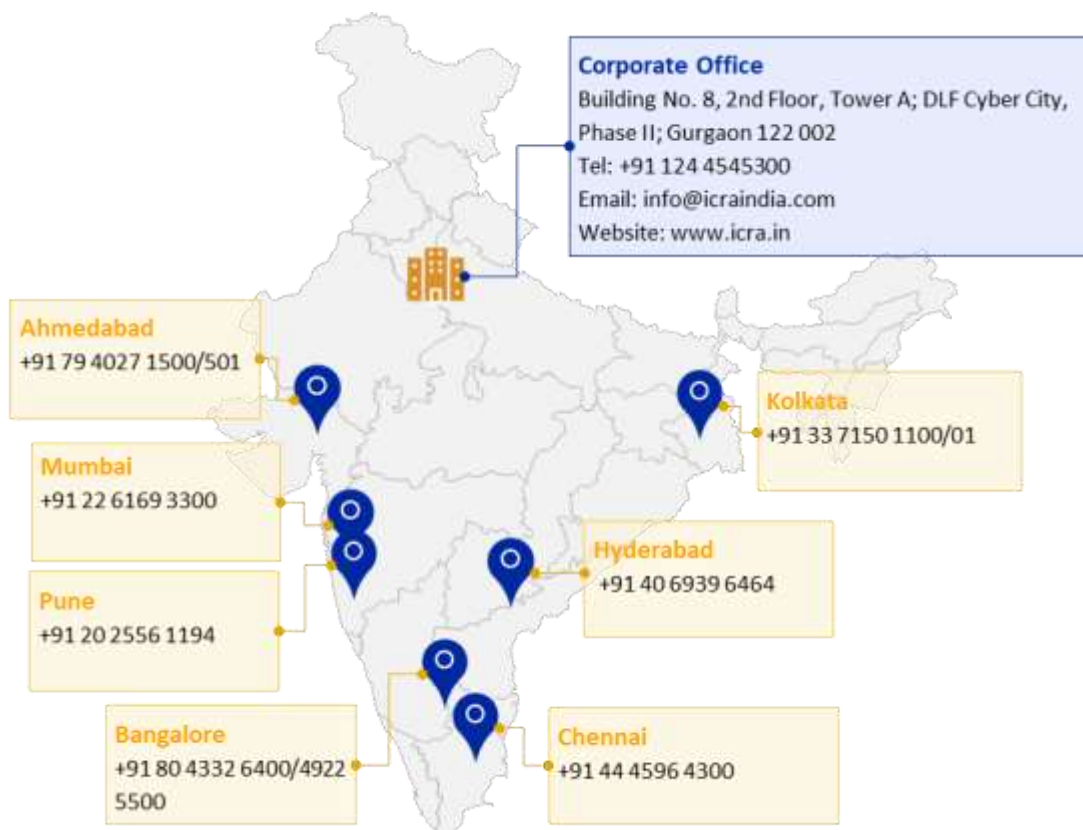
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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