August 28, 2024

InCred Financial Services Limited: Ratings reaffirmed and assigned to fresh/enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	400.00	400.00	[ICRA]AA- (Stable); reaffirmed
	0.00	700.00	[ICRA]AA- (Stable); assigned
Commercial paper	300.00	500.00	[ICRA]A1+; reaffirmed/assigned for enhanced amount
Market linked debentures	0.00	300.00	PP-MLD[ICRA]AA- (Stable); assigned
Total	**700.00**	**1,900.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in InCred Financial Services Limited's (IFSL) healthy capitalisation profile, backed by regular capital infusions (most recent capital infusion of Rs. 500 crore in Q3 FY2024), which has supported the growth of its assets under management (AUM; ~58% in FY2023, ~49% in FY2024 and 17% in Q1 FY2025). The company's risk profile is supported by the diversified product mix with personal loans (PLs) accounting for 46.6% of the AUM, followed by student loans (22.7%), anchor & escrow-backed business loans (16.1%), loans to financial institutions (7.5%) and secured school financing and loan against property (LAP; 7.1%). The lower growth in Q1 FY2025 was mainly due to the slowdown in the anchor & escrow-backed business loans, which are seasonal in nature. However, ICRA expects the growth in this segment to pick up in the coming quarters with the share of the different product segments in the AUM remaining range-bound over the near to medium term. The ratings also consider IFSL's enhanced profitability {profit after tax (PAT)/average managed assets (AMA), on a consolidated basis, of 3.7% and 3.6% in Q1 FY2025 and FY2024, respectively, vis-à-vis 2.1% in FY2023}, supported by the improving operating efficiency and controlled credit costs.

The robust scale-up of operations in the recent past has, however, led to limited portfolio seasoning, given the relatively long-tenure nature of some of the products. Growth was also seen in the company's managed book[1], which accounted for 17.1% of the AUM in June 2024. IFSL's co-lending arrangements are with public sector banks at present. Student loans, secured school financing, and LAP, which are longer-tenure products (9-16 years), had increased at a compound annual growth rate (CAGR) of 48% during the last two fiscals and accounted for 29.8% of the AUM as of June 2024. PLs originated by IFSL (42.1% of AUM in June 2024) have an average tenure of about four years. As these loans are unsecured, they are prone to asset quality shocks.

Apart from own PLs, IFSL has a PL book (4.5% of AUM in June 2024) sourced via partner entities, which is covered by a first loss default guarantee (FLDG) as per the digital lending guidelines. The company provides anchor/escrow-backed business loans (16.1% of AUM in June 2024) to borrowers operating on various e-commerce and other platforms and extends supply chain finance as well. Despite IFSL's presence in the unsecured product segments, the asset quality is currently under control, characterised by gross stage 3 (GS3) of 2.1% and overall provision of 2.6% of the AUM as of June 2024.

[1] *Co-lending and direct assignment*

Key rating drivers and their description

Credit strengths

Healthy capitalisation profile, supported by capital infusions – IFSL's capitalisation was characterised by a healthy capital adequacy ratio of 31.4% (Tier I) as of June 2024, supported by capital infusions and improving internal accruals. Although the capital adequacy ratio was impacted by the increase in the risk weights applicable for consumer credit as per the recent Reserve Bank of India (RBI) circular, this was partially offset by the equity infusion of Rs. 500 crore in Q3 FY2024. ICRA notes that the merger with KKR India Financial Services Limited (KIFSL) in FY2023 had increased the net worth by ~Rs. 1,250 crore, boosting the capitalisation profile. The consolidated net worth stood at Rs. 3,424 crore as of June 2024[2] with a managed gearing[3] of 2.0 times. The company envisages expanding at a CAGR of 35-40% during FY2025-FY2026. ICRA expects IFSL's managed gearing to remain within 4.0 times while it grows its AUM during the above-mentioned period.

Diversified product profile – IFSL offers diversified loan products including PLs (46.6% of the AUM in March 2024), student loans (22.7%), anchor & escrow-backed business loans (16.1%), financial institution loans (7.5%), and secured school financing & LAP (7.1%). The average ticket size of PLs is ~Rs. 2 lakh with an average tenor of ~4 years and focus on the salaried segment. A portion of the PL book is originated by partners (9.7% of the PL AUM) with loan loss covers through FLDGs. Student loans are mainly extended for overseas education and have an average ticket size of ~Rs. 35 lakh. Anchor & escrow-backed business loans and supply chain loans are extended to borrowers operating on various e-commerce and other platforms. These loans are generally anchor-backed or have escrow facilities, mitigating some of the underlying credit risks in the target segments.

The company thus caters to a diverse set of end borrowers, partially reducing its credit concentration risk. IFSL is expected to focus on these products, going forward as well, and the share of these segments shall remain range-bound at the current levels. IFSL had 55 branches and 1,712 employees as of March 2024; a sizeable part of its operations is driven by technology.

Improving profitability indicators – On a consolidated basis, the company's PAT/AMA improved to 3.7% and 3.6% in Q1 FY2025 and FY2024, respectively, from 2.1% in FY2023. This was supported by healthy margins and lower operating expenses. IFSL had invested significantly in building its technology infrastructure during the initial stages. The profitability was also supported by recoveries from the written-off pool acquired during the merger in FY2023. Adjusting for these recoveries, PAT/AMA would have been 2.8% in Q1 FY2025 as well as FY2024. From an earnings perspective, keeping the credit costs under control and improving the operating efficiency further would be key, going forward.

Credit challenges

High portfolio growth, resulting in limited portfolio seasoning – IFSL's AUM grew by ~49% in FY2024 and ~17% in Q1 FY2025 and stood at Rs. 9,416 crore as of June 2024. PLs and anchor & escrow-backed business loans grew by ~73% and ~57%, respectively, in FY2023 and ~57% and ~29%, respectively, in FY2024. Student loans grew by ~120% and ~86% in FY2023 and FY2024, respectively. This steep growth and the longer tenure of most of these loans indicate limited portfolio seasoning at present.

Asset quality, considering the target segments, shall be monitorable – Considering the steep portfolio expansion and the target borrower segment, the sustained loan performance over the medium term shall be key from a rating perspective. IFSL's asset quality profile is comfortable with the GS3 remaining under 2.6% (2.1% as of June 2024) except during the Covid-19 pandemic, when it reached a peak of ~4%. The overall expected credit loss (ECL) provision stood at 2.6% of the loan book as of June 2024 while the stage 3 provision coverage ratio (PCR) stood at ~60%. Write-offs (as a percentage of opening book) stood at 1.6% in Q1 FY2025 and 0.9% in FY2024. The 90+ days past due (dpd), on a one-year lagged basis (90+ dpd of current year/previous year AUM), was 2.9% as of March 2024 vis-à-vis 3.0% as of March 2023.

---

[2] *Adjusted for deferred tax assets, consolidated net worth and managed gearing stood at Rs. 3,077.7 crore and 2.2 times, respectively*
[3] *(On-book debt + Off-book debt)/Net worth*

In the PL segment, the 90+ dpd stood at 3.1% of the AUM as of June 2024 compared to 1.9% in March 2023, largely on account of slippages for one of the partners in the PL book (excluding the overall partner PL book, 90+ dpd stood at 2.4% and 2.2% in June 2024 and March 2023, respectively). The 90+ dpd in the student loan segment was minimal at 0.1% in June 2024, supported by the healthy collection efficiency, while it was 2.1% in June 2024 and 1.9% in March 2024 for the business loan segment. ICRA notes that the performance would be monitorable, given the unsecured nature of the PL portfolio and the relatively moderate credit profile of the target borrowers in the business loan segment.

Liquidity position: Strong

IFSL had free cash and liquid investments of Rs. 554.4 crore and undrawn bank lines of Rs. 173.3 crore, as of June 2024, against debt obligations of Rs. 682.1 crore during July-September 2024. The asset-liability management profile, as of June 2024, had no negative cumulative mismatches in any of the buckets. Borrowings included 66% from banks, 19% from capital market sources, 14% from non-banking financial companies (NBFCs) and financial institutions, and 1% from external commercial borrowings.

Rating sensitivities

Positive factors – Significant scale-up in the portfolio, while maintaining good asset quality and earnings on a sustained basis, would lead to a positive impact on the ratings.

Negative factors – An increase in the managed gearing beyond 4.0 times or a deterioration in the asset quality indicators on a sustained basis could lead to a negative impact on the ratings. Weakening in the return on managed assets (RoMA) to less than 2.0% on a sustained basis shall also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's credit rating methodology for non-banking finance companies
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IFSL.

About the company

InCred Financial Services Limited (IFSL; erstwhile KKR India Financial Services Limited or KIFSL) is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). In FY2023, the erstwhile IFSL was merged with KIFSL, becoming a 100% subsidiary of InCred Holdings Limited (IHL; erstwhile KKR Capital Markets Private Limited, the holding company of KIFSL). The merged entity (i.e. KIFSL) was subsequently renamed InCred Financial Services Limited. The shareholders of the erstwhile IFSL became IHL's shareholders.

The company's registered office is in Mumbai. It provides personal loans, education loans, school financing, LAP, loans to financial institutions and anchor & escrow-backed business loans. As of June 2024, IFSL had operations in 14 states with 74 branches.

Key financial indicators – Consolidated

IFSL	FY2023	FY2024	Q1 FY2025*
Total income	877	1,293	392
PAT#	121	316	98
Total managed assets	7,267	10,458	10,681
Return on managed assets	2.1%	3.6%	3.7%
Managed gearing (times)	1.8	2.0	2.0
Gross stage 3	2.1%	2.1%	2.1%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; # Excludes share of loss from associates; * Provisional*

Key financial indicators – Standalone

IFSL	FY2023	FY2024	Q1 FY2025*
Total income	876	1,292	392
PAT	121	315	93
Total managed assets	7,356	10,471	10,693
Return on managed assets	2.1%	3.5%	3.5%
Managed gearing (times)	1.8	2.0	2.0
Gross stage 3	2.1%	2.1%	2.1%
CRAR	33.4%	30.4%	32.1%

*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 (FY2025)					Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Aug-28-2024	Date & rating in FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Non-convertible debentures	Long term	1,100.00	[ICRA]AA- (Stable)	Jun-03-2024	[ICRA]AA- (Stable)	Mar-28-2024	[ICRA]AA- (Stable)	-	-	-	-
Commercial paper	Short term	500.00	[ICRA]A1+	Jun-03-2024	[ICRA]A1+	Mar-28-2024	[ICRA]A1+	-	-	-	-
Market linked debentures	Long term	300.00	PP-MLD[ICRA]AA- (Stable)	-	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Simple
Commercial paper	Very simple
Market linked debentures	Moderately complex

Note: The complexity indicator mentioned in the table is based on ICRA's assumptions and is subject to change when the terms are eventually finalised

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
INE321N07400	**NCD**	May-22-2024	9.50%	May-21-2026	50.00	[ICRA]AA- (Stable)
INE321N07426	**NCD**	Aug-20-2024	9.50%	Aug-18-2026	100.00	[ICRA]AA- (Stable)
NA	**NCD***	NA	NA	NA	950.00	[ICRA]AA- (Stable)
INE321N14158	**CP**	Apr-19-2024	8.75%	Oct-16-2024	50.00	[ICRA]A1+
INE321N14174	**CP**	Jun-26-2024	8.60%	Oct-24-2024	50.00	[ICRA]A1+
INE321N14182	**CP**	Aug-14-2024	9.25%	Nov-28-2024	25.00	[ICRA]A1+
INE321N14190	**CP**	Aug-23-2024	9.20%	Dec-20-2024	15.00	[ICRA]A1+
INE321N14190	**CP**	Aug-26-2024	9.50%	Aug-27-2025	25.00	[ICRA]A1+
NA	**CP***	NA	NA	NA	335.00	[ICRA]A1+
NA	**MLD***	NA	NA	NA	300.00	PP-MLD[ICRA]AA- (Stable)

*Source: Company; *Not yet placed*

Annexure II: List of entities considered for consolidated analysis

Company Name	IFSL Ownership	Consolidation Approach
Incred Management and Technology Services Private Limited	100.00%	Full Consolidation
Incred.AI Limited	100.00%	Full Consolidation
Booth Fintech Private Limited*	100.00%	Full Consolidation
mValu Technology Services Private Limited*	75.82%	Full Consolidation

Source: IFSL's FY2024 annual report

*Note: ICRA has taken a consolidated view of IFSL while assigning the ratings; * Ceased to be a subsidiary with effect from July 11, 2023*

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Richardson Xavier J
+91 44 4596 4310
richardson.xavier@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:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

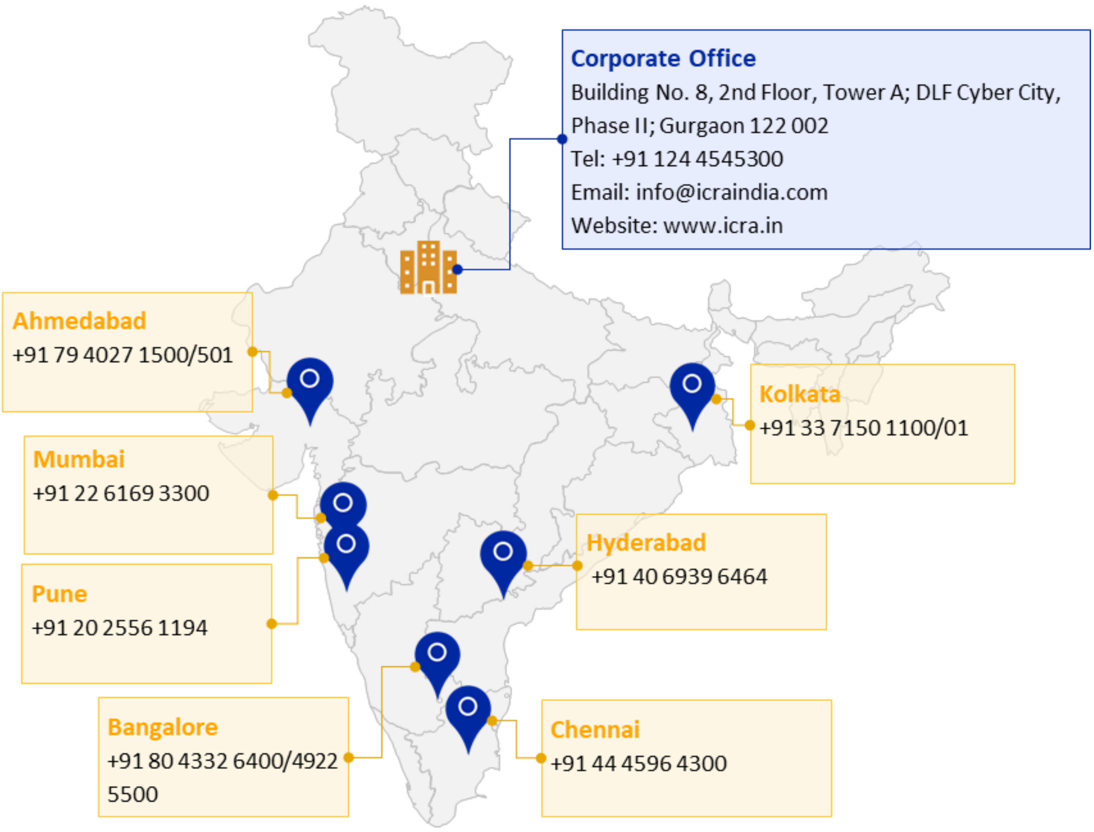
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.