March 11, 2022

Akara Capital Advisors Private Limited: [ICRA]BBB- (Stable)/[ICRA]A3 assigned; earlier rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Bank Lines	75.00	75.00	[ICRA]BBB- (Stable); reaffirmed
Commercial Paper	0.00	20.00	[ICRA]A3; assigned
Non-convertible Debentures	0.00	70.00	[ICRA]BBB- (Stable); assigned
Total	**75.00**	**165.00**	

**Instrument details are provided in Annexure-1*

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. The Group's technology platform known as StashFin, which has been built in-house, is a part of EQXAPL and is used by ACAPL and its co-lending partners. ACAPL and EQXAPL are wholly-owned subsidiaries of Morus Technologies Pte. Ltd, the Singapore-based holding company, which is backed by foreign investors like Tencent, Blowfish Ventures, Divine Blessings, Altara Ventures, Uncorrelated Ventures, etc.

The ratings factor in ACAPL's adequate capitalisation indicators for the current scale of operations with a consolidated net worth of Rs. 190 crore and a low gearing of 1.1 times as on December 31, 2021. ICRA also notes the recent capital raise of Rs. 62 crore in Q3 FY2022 (Rs. 46 crore infused in H1 FY2022) by the company, which will support its growth over the short to medium term. The ratings also factor in ACAPL's granular retail portfolio with an average ticket size of ~Rs. 16,000 and the total number of borrowers at 5.95 lakh as on December 31, 2021. The company provides unsecured personal loans of up to Rs. 5 lakh to salaried individuals through StashFin and has a pan-India presence.

The ratings are, however, constrained by the limited track record of operations with the asset quality indicators yet to be tested across economic cycles. Nevertheless, the asset quality indicators have remained range-bound so far with 90+ days past due (dpd) of 5.0% as on December 31, 2021, though it increased marginally from 3.6% as on September 30, 2021. Given the unsecured nature of the loans, the inherent riskiness of the portfolio remains high.

The company's scale of operations remains modest with assets under management (AUM) of Rs. 392 crore as on December 31, 2021, though it is expected to grow at a high pace over the medium term, supported by regular capital infusions from the parent. The ratings are also constrained by ACAPL's limited financial flexibility owing to its limited funding tie-ups and its large dependency on a few non-banking financial companies (NBFCs) to meet its borrowing needs. The profitability indicators are subdued on a consolidated basis with the company reporting net losses since inception due to its high operating and credit costs. Though ICRA expects the consolidated overall profitability indicators to improve to some extent over the medium term, the ability to limit fresh slippages and maintain good underwriting standards would be a key rating monitorable.

Key rating drivers and their description

Credit strengths

Adequate capitalisation profile for current scale of operations – ACAPL's capitalisation profile is adequate for the current scale of operations with a consolidated net worth of Rs. 190 crore and a low gearing of 1.1 times as on December 31, 2021. The company raised Rs. 62 crore from its parent in Q3 FY2022 (Rs. 46 crore raised in H1 FY2022). Regular capital infusions by the parent have resulted in a comfortable gearing of 1.1 times as on December 31, 2021 (gearing of 0.6 times for ACAPL (standalone) and CRAR of 55.1% as on March 31, 2021). ICRA expects the gearing levels to increase with business growth and to around 3 times over the medium term. Given the growth plans, ACAPL would continue to need equity infusions from its parent over the medium term in order to maintain prudent capitalisation levels. In ICRA's opinion, prudent capitalisation is one of the key mitigants against delinquencies and other credit risks associated with any business.

Granular retail portfolio – ACAPL's portfolio is granular, comprising small-ticket loans to individuals with an average ticket size of ~Rs. 16,000 and the number of borrowers at 5.95 lakh as on December 31, 2021. The company offers unsecured personal loans to salaried individuals through its credit line card, which can then be used at any point of sale (POS) or ATM (with free withdrawals) like a regular debit/credit card depending on the sanctioned limit for the borrower. About 26% of the AUM comprised very small-ticket loans of <Rs. 10,000 and the balance comprised loans of up to Rs. 5 lakh as on December 31, 2021. The short tenure of the loans (1-36 months) also provides support to the liquidity profile.

Credit challenges

Limited track record of operations; asset quality indicators yet to be tested – ACAPL started operations in 2017 and has witnessed a compound annual growth rate (CAGR) of ~59% in the last 2.7 years. With an average loan tenure of 14-15 months and a large portion of the loans being originated in 9M FY2022 (disbursement of Rs. 490 crore in 9M FY2022), the 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 180+ dpd basis) were nil as on December 31, 2021, largely due to the signed memorandum between ACAPL and EQXAPL (on April 1, 2020). Under this memorandum, EQXAPL would provide a first loss default guarantee (FLDG) for 100% of the NPA amount (on 150+ dpd basis) to ACAPL and would earn an internal rate of return (IRR) above 24% as service fee on the loans disbursed. The GNPA%, including write-offs/FLDG expenses, on a consolidated basis remained high at 6.7% in FY2021 (10.4% in FY2020; 3.3% in 9M FY2022). Moreover, despite the relatively low seasoning, the 90 dpd delinquencies remained moderate at 5.0% as on December 31, 2021, albeit lower than 10.1% as on March 31, 2021. ICRA notes that ACAPL has developed a risk management system to detect frauds and its ability to control slippages, manage fraud risk and maintain good credit underwriting standards would be a key rating monitorable going forward.

Modest scale of operations – ACAPL's AUM grew at a high pace (327% on an annualised basis) to Rs. 392 crore as on December 31, 2021 from Rs. 114 crore as on March 31, 2021. The high growth was supported by disbursements of Rs. 490 crore in 9M FY2022 compared with Rs. 163 crore in FY2021. Though the company has a pan-India presence in terms of its borrowers, the scale of operations remains modest, partly also on account of the short tenure of the loans and hence fast amortisation. Nevertheless, ICRA expects the scale to increase over the medium term, supported by regular equity infusions by the parent.

Limited financial flexibility – ACAPL's financial flexibility remains limited with high dependency on larger NBFCs for its funding needs. The average cost of funds remains high in the range of 13-15% with the average tenure of borrowing at around 17 months. The company has limited funding tie-ups as of now and its ability to tap the debt markets and draw larger funding lines from banks would be important to scale up its operations.

Modest profitability indicators – Though ACAPL has reported modest profitability over the last few fiscals (last three years' (FY2018-FY2021) average return on assets (RoA) of 1.1%) on a standalone basis, the profitability has remained subdued on a consolidated basis with the Group reporting losses since inception. ACAPL reported a net loss of Rs. 11.6 crore in FY2021 on a consolidated basis compared to a net loss of Rs. 5.3 crore in FY2020. It reported a net loss of Rs. 13.1 crore in 9M FY2022.

The operating costs have remained high with investment in manpower and technology and are expected to moderate over the medium as the company increases its scale. The high loan write-offs/FLDG expenses of Rs. 6.3 crore in FY2021 and Rs. 10.5 crore in FY2020 have resulted in high credit costs. The loan write-offs/FLDG expenses increased further to Rs. 12 crore in 9M FY2022. However, as ACAPL grows as per its business plans, ICRA expects the consolidated overall profitability indicators to improve to some extent over the medium term, provided it is able to limit fresh slippages.

Liquidity position: Adequate

ACAPL's liquidity position is adequate with no negative cumulative mismatches in the asset-liability management (ALM) statement as on December 31, 2021 owing to the short tenure of the loan book and adequate on-balance sheet liquidity. The company's unencumbered cash and bank balance stood at Rs. 29 crore as on December 31, 2021. As on December 31, 2021, the expected inflows from advances in the next one year stood at Rs. 265 crore compared to debt repayments of only Rs. 166 crore during this period.

ACAPL has a Rs. 50-crore credit line from its parent company (holding company – Morus Technologies Pte Limited (MTPL) and ICRA expects support from the parent to be forthcoming as and when required.

Rating sensitivities

Positive factors – A significant 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 Credit Rating Methodology for Non-Banking Finance Companies Consolidation and Rating approach
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 Morus Technologies, a Singapore-based neobanking start-up backed by investors like Tencent, Blowfish Ventures, Divine Blessings, Altara Ventures, Uncorrelated Ventures, etc.

ACAPL is a 100% subsidiary of Morus Technologies (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.

ACAPL has a pan-India presence and ~26% of its AUM comprised very small-ticket size loans (<Rs. 10,000) with the balance comprising larger ticket size loans (>Rs. 10,000 and <Rs. 5 lakh) as on December 31, 2021. Total disbursements stood at Rs. 163 crore in FY2021 compared to Rs. 244 crore in FY2020. In 9M FY2022, disbursements stood at Rs. 490 crore.

On a standalone basis, ACAPL reported a profit after tax (PAT) of Rs. 1.8 crore in FY2021 on a total managed asset base of Rs. 157.7 crore as on March 31, 2021 compared to a PAT of Rs. 0.8 crore in FY2020 on a total managed asset base of Rs. 168.6 crore as on March 31, 2020. In 9M FY2022, the company reported a PAT of Rs. 3.7 crore on a total managed asset base of Rs. 451.5 crore (based on provisional financials). As on December 31, 2021, the company's standalone net worth stood at Rs. 188.8 crore with a gearing of 1.1 times supported by an equity infusion of Rs. 62 crore by the parent in Q3 FY2022.

On a consolidated basis (ACAPL & EQXAPL), the company reported a loss of Rs. 11.6 crore in FY2021 on a total managed asset base of Rs. 216.7 crore as on March 31, 2021 compared to a loss of Rs. 5.3 crore in FY2020 on a total managed asset base of Rs. 221.0 crore as on March 31, 2020. In 9M FY2022, the company reported a loss of Rs. 13.1 crore on a total managed asset base of Rs. 482.0crore (based on provisional financials). As on December 31, 2021, the company's consolidated net worth stood at Rs. 190.0 crore with a gearing of 1.1 times.

Key financial indicators (audited)

ACAPL Standalone	FY2020	FY2021	9M FY2022
	Audited	Audited	Provisional
Profit after tax (Rs. crore)	0.8	1.8	3.7
Net worth* (Rs. crore)	40.1	76.7	188.8
AUM (Rs. crore)	159.8	113.7	392.3
Total managed assets (Rs. crore)	168.6	157.7	451.5
Return on assets (%)	1.0%	1.5%	1.8%
Return on net worth (%)	2.4%	3.2%	3.7%
Gearing (times)	0.9	0.6	1.1
Gross NPA** (%)	0.8%	0.0%	0.0%
Net NPA (%)	0.7%	0.0%	0.0%
Solvency (Net NPA/Net worth)	1.8%	0.0%	0.0%
90+ dpd (%)	5.1%	10.1%	5.0%
CRAR (%)	37.5%	55.1%	-

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; **Recognised on 180+ dpd basis*

Consolidated (ACAPL + EQXAPL)	FY2020	FY2021	9M FY2022
	Audited	Audited	Provisional
Profit after tax (Rs. crore)	-5.3	-11.6	-13.1
Net worth* (Rs. crore)	72.0	95.2	190.0
AUM (Rs. crore)	159.8	113.7	392.3
Total managed assets (Rs. crore)	221.0	216.7	482.0
Return on assets (%)	-4.0%	-6.6%	-5.5%
Return on net worth (%)	-8.5%	-13.8%	-12.3%
Gearing (times)	0.7	0.6	1.1
Gross NPA (%)	0.8%	0.0%	0.0%
Net NPA (%)	0.7%	0.0%	0.0%
90+ dpd (%)	5.1%	10.1%	5.0%
Solvency (Net NPA/Net worth)	1.0%	0.0%	0.0%

***Source:** ACAPL, ICRA Research; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				Mar 11, 2022	Dec 09, 2021	-	-	-
Long-term Term Loans	Long Term	75.00	0.00	**[ICRA]BBB-Stable**	**[ICRA]BBB-(Stable)**	-	-	-
Non-convertible Debentures	Long Term	70.00	0.00	**[ICRA]BBB-Stable**	-			
Commercial Paper	Long Term	20.00	0.00	**[ICRA]A3**	-			

Source: Company, ICRA Research

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Term Loans	Simple
Non-Convertible 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: www.icra.in

Annexure-1: Instrument details as on December 31, 2021

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)
Unplaced	Non-Convertible Debenture	NA	NA	NA	70.00	[ICRA]BBB- (Stable)
Unplaced	Commercial Paper	NA	NA	NA	20.00	[ICRA]A3

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
Akara Capital Advisors Private Limited	Rated Entity	Full Consolidation
EQX Analytics Private Limited	Group Company with Same Parent	Full Consolidation

Source: *ICRA Research*

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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.

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

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