

August 29, 2022

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 Debenture	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 information technology (IT) services sector and its well-established relationships with reputed customers in the financial services domain. The institutional equity shareholders of the company include HDFC Bank Limited, HDFC Investments Limited, Bessemer India Capital Holdings Limited, and SIG Global India Funds LLP. The company's customer base includes top private banks and NBFCs¹, which use its cloud-based lending platform. LAPL's lending platform has all the tools, features, and integrations required for KYC² and compliance with onboarding, servicing, collections, and beyond for all types of lending, which helps the customers to lend effectively. The company recorded revenue of Rs. 71.5 crore (revenue growth of 60% YoY) in FY2022, supported by client addition. ICRA expects the company to grow at a healthier pace supported by a lower base, widening of service offerings and strengthening of its sales/ marketing team. Additionally, the company's capital structure and liquidity remain comfortable with a net worth of ~Rs. 100.4 crore and unencumbered cash/ bank balance of Rs. 24.5 crore as of June 30, 2022, supported by funds (Rs. 34 crore) raised from the shareholders in Q1 FY2023.

The rating, however, is constrained by LAPL's moderate scale of operations and risks related to successful scaling up of operations as envisaged over the near to medium term. The company reported an operating loss of Rs. 56.5 crore in FY2022, which includes ESOP³ and founder stock option expenses of Rs. 53.4 crore. Adjusting for stock option expense, LAPL reported an operating loss of Rs. 3.1 crore in FY2022 over a profit of Rs. 5.1 crore in FY2021. The moderation in profitability was due to considerable increase in employee costs as the company has enhanced its employee base, especially sales/marketing personnel. Moreover, LAPL's operations are exposed to high client concentration risk with its top five clients generating much of its revenues; although the same is mitigated to some extent by repeat orders. Moreover, the company faces challenges concerning a high attrition rate and high dependence on a single end-user industry, i.e., financial services, which makes its business operations vulnerable to industry-specific risks. The rating also factors in the material liability, if any, which may arise from the buy-back option available to its private equity investors, or the liability from breach of any agreed contract that may impact LAPL's credit profile adversely.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that LAPL will continue to benefit from its promoters' extensive experience in the industry, its established relationships with reputed clients and favourable demand outlook, enabling it to scale up its operations.

¹ NBFC: Non-banking financial companies

² KYC: Know Your Customer

³ ESOP: Employee stock option plan

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the IT services sector – LAPL’s key promoter, Mr. D. Venkatesh, has been in the IT services business for over two decades and is well supported by a qualified and experienced management team. The promoter’s experience supported by a strong management team continues to aid LAPL in retaining its clients and acquiring new ones.

Well-established relationships with reputed customers from financial services sector – LAPL enjoys established relationships with its reputed customers from the financial services domain. Several well-known private sector banks and NBFCs dominate its clientele.

Comfortable capital structure led by investor funding – The company’s capital structure remains comfortable supported by investor funding of Rs. 77.0 crore in the form of CCPS series A in FY2020 and further Rs. 34.0 crore in CCPS series A1 funding in Q1 FY2023. These funds are invested by Bessemer India Capital Holdings Limited, and SIG Global India Funds LLP in proportion of 60:40. The company’s net worth remained strong at ~Rs. 100.4 crore as on June 30, 2022, supported by the investor funding in Q1 FY2023. The funds raised have been partly utilised for acquiring “The Data Team” (TDT), a Chennai and Singapore-based AI company with expertise in the data domain (AI-based solutions). TDT has engineered Cadenz, a customer intelligence platform that provides enterprises with live behaviour intelligence about their customers. LAPL will integrate Cadenz, which helps its customer to make decisions on customer creditworthiness based on a unique financial journey. While debt protection metrics have remained constrained by operating losses, it is expected to improve over the medium term driven by improvement in internal accrual generation.

Credit challenges

Moderate scale of operations and operating losses limiting benefits from economies of scale – The company witnessed a healthy revenue growth of ~60% YoY in FY2021 and FY2022. However, the scale of operations continued to remain modest as indicated by an operating income (OI) of Rs. 71.5 crore in FY2022, limiting the benefits arising from economies of scale. The company reported an operating loss of Rs. 56.5 crore in FY2022, which includes ESOP and founder stock option expenses of Rs. 53.4 crore. Adjusting for stock option expense, LAPL reported an operating loss of Rs 3.1 crore in FY2022 as compared to a profit of Rs. 5.1 crore in FY2021. The moderation in profitability was due to considerable increase in employee costs as the company has enhanced its employee base, especially sales/ marketing personnel. ICRA expects the healthy revenue growth and improvement in profitability in the medium term supported by a lower base, widening of service offerings and investment in sales and marketing.

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 ~60-70% to its total revenue. However, its reputed clientele providing repeat orders offers comfort to an extent. LAPL currently caters to a single end-user industry, financial services (lenders), which exposes it to any industry-specific risks.

High attrition rate – The company faces issues related to attrition rate, which stood high at ~34% in FY2022. The retention and development of talent, on a sustained basis, remains a challenge.

Liquidity position: Adequate

The company’s liquidity position remains **adequate** supported by steady internal accrual generation and free cash/ liquid investments of Rs. 24.5 crore as on June 30, 2022. While LAPL has term loan repayments of Rs. 5.5 crore in FY2023, its cash accruals and available surplus liquidity will be sufficient to service the same.

Rating sensitivities

Positive factors – ICRA could upgrade LAPL’s rating if the company demonstrates significant ramp-up in scale and turns around its operations.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Information Technology (Services)
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

Incorporated on July 30, 2018, LAPL is involved in providing IT solutions to corporates from the finance domain. It is essentially a cloud-based software product company operating on a Software as a Service (SaaS) model, where its applications empower its clients to lend effectively and easily. The company acquired the business from Softcell Technologies Limited (Softcell) by way of an NCLT de-merger process on August 19, 2019, following the NCLT order.

Key financial indicators (audited)

LAPL – Standalone	FY2021	FY2022
Operating income	44.7	71.5
PAT	-24.7	-52.0
OPBDITA/OI	13%	-4%
PAT/OI	-55%	-73%
Total outside liabilities/Tangible net worth (times)	0.6	0.4
Total debt/OPBDITA (times)	4.0	-8.7
Interest coverage (times)	4.9	-3.7

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs crore, OPBDITA before stock expense is considered for computing the above ratios

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Aug 29, 2022	Aug 23, 2021	Aug 05, 2020	Nov 21, 2019	
Compulsorily Convertible Debentures	Long term	7.00	7.0	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable); Provisional Rating Confirmed as Final	Provisional [ICRA]BB-(Stable);	

Complexity level of the rated instruments

Instrument	Complexity Indicator
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: www.icra.in

Annexure I: Instrument details

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

Source: Company *CCDs are compulsorily convertible into equity shares by October 2029

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

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Kinjal Shah

+91 022 61143400

kinjal.shah@icraindia.com

Deepak Jotwani

+91 124 4545 870

deepak.jotwani@icraindia.com

Pawan Mundhra

+91 20 6606 9918

pawan.mundhra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

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.