

October 26, 2022

KrazyBee Services Private Limited: Rating upgraded, outlook revised to Stable and withdrawn for market linked debentures

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Market Linked Debentures	50.00	-	PP-MLD[ICRA]BBB (Stable); upgraded from PP-MLD [ICRA] BBB- (Positive), outlook revised to Stable and withdrawn
Total	50.00	0.00	

*Instrument details are provided in Annexure-I

The letters, PP-MLD, prefixed to a rating symbol stand for principal protected market linked debentures. According to the terms of the rated instrument, the amount invested, i.e. the principal, is protected against erosion while the returns on the investment could vary, being linked to movements in one or more variables such as equity indices, commodity prices, and/or foreign exchange rates. The rating assigned expresses ICRA's current opinion on the credit risk associated with the issuer concerned. The rating does not address the risks associated with variability in returns resulting from adverse movements in the variable(s) concerned.

Rationale

To arrive at the rating, ICRA has taken a consolidated view of KrazyBee Services Private Limited (KBSPL), its parent (Finnov Private Limited (FPL) and fellow subsidiaries [Finnovation Tech Solutions Private Limited (FTSPL) and Kartbee Technologies Private Limited (KTPL)], collectively referred to as the Group.

ICRA has simultaneously upgraded the rating of the market linked debentures of KBSPL to PP-MLD[ICRA]BBB (Stable) and withdrawn the same as the instrument has matured and is fully repaid.

The revision in the rating and outlook follows the expected improvement in the Group's scale of operations with the consolidated disbursements (for KBSPL and other lending partners on the platform) starting to improve post the second wave of the Covid-19 pandemic, i.e. from H2FY2022. Previously, disbursements were impacted by the pandemic and other external factors, which affected digital lenders. The company had also tightened its credit norms during the pandemic. With the effects of the pandemic largely under control from H2FY2022, the Group has renewed its focus on growth. As such, its consolidated disbursements recovered to Rs. 5,796.2 crore in FY2022 from Rs. 2,133.6 crore in FY2021, though it is yet to surpass the disbursements achieved in FY2020 (Rs. 7,324.1 crore). In Q1FY2023, the disbursements were robust at about Rs.2,905 crore. Disbursements are expected to scale up sharply to about Rs. 14,000 crore in FY2023 at the Group level. On a standalone basis, KBSPL's disbursements increased to Rs. 3,618.8 crore in FY2022 from Rs. 1,386.5 crore in FY2021 (Rs. 6,159.3 crore in FY2020) and stood at Rs. 1,411.9 crore in Q1 FY2023.

The rating action also takes into consideration the expected improvement in the Group's earnings profile aided by the enhanced operating efficiency resulting from the robust disbursement growth. The Group's cost-to-income ratio started improving from H2FY2022, with the improvement in disbursements, and stood at 66.4% in H2FY2022 and 59.7% in Q1FY2023 vis-à-vis 91.9% in H1FY2022. Consequently, the Group reported a net profit of Rs. 82.9 crore in H2FY2022 and Rs. 24.4 crore in Q1FY2023 vis-à-vis a net loss of Rs. 131.0 crore in H1FY2022. ICRA notes that the portfolio delinquencies as well as the credit and provision costs remain at elevated levels, given the unsecured nature of the asset class. As such, its ability to keep the credit costs under control on a sustained basis would remain crucial from a rating perspective.

The rating factors in the Group's currently comfortable capital structure, supported by regular equity infusions, and its adequate liquidity position. The Group's managed gearing stood at 2.4x as on March 31, 2022 (3.2x as on June 30, 2022).

compared to 0.9x as on March 31, 2021 (as per iGAAP¹). KBSPL's standalone gearing (as per IndAS²) stood at 1.7x as on June 30, 2022 and 1.3x as on March 31, 2022 compared to 0.9x as on March 31, 2021. ICRA notes that the company is expecting to raise another sizable round of equity over the next few months, which would further support its capital requirement to meet its medium-term growth plans. The rating also continues to factor in the Group's evolving product profile and the risks related to changes in regulatory norms, data security and privacy arising from its largely digital loan management process.

Key rating drivers and their description

Credit strengths

Integrated technology platform; improving scale of operations – The Group has developed an in-house software platform, Beehive Risk Platform, which is completely integrated and encompasses the loan origination, management, collection and accounting processes. ICRA notes that the technology platform is robust with an agile risk engine, facilitating regular updates of the underwriting rules and recalibration of the models. The customer onboarding and evaluation rules on the platform are continuously evolving to incorporate incremental fraud prevention checks and improve the process efficiency of the collections team. ICRA, however, notes that the Group would have to continuously invest in technology and upgrade its models, in line with the dynamic borrower data and evolving product profile.

KBSPL commenced operations in March 2016 and received a non-banking financial company (NBFC) license from the Reserve Bank of India (RBI) in May 2017. It was co-founded by Mr. Madhusudhan Ekambaram and others, including Mr. Karthikeyan Krishnaswamy and Mr. Vivek Veda, with experience in the areas of technology, operations, project management and sales. The promoter group is supported by a strong management team with experience in risk management, data science, finance, digital marketing, quantitative analysis and consulting. Its initial focus was on the niche segment of student personal loans under the brand name KrazyBee, which was discontinued in FY2021 after the first wave of the pandemic. KBSPL now offers unsecured loans to young professionals under its brand, KreditBee. It currently disburses loans with a weighted average tenor of about 5 months.

ICRA notes that KBSPL's disbursements were impacted between March 2020 and September 2021 on account of the pandemic and other external factors, which affected digital lenders. The company had also tightened its credit norms and scaled down its disbursements on account of the same. With the effect of the pandemic largely under control from H2FY2022, the Group renewed its focus on growth. As such, its consolidated disbursements (KBSPL and other partners on the platform) increased to Rs. 5,796.2 crore in FY2022 from Rs. 2,133.6 crore in FY2021, though it is yet to surpass the disbursements achieved in FY2020 (Rs. 7,324.1 crore). In Q1FY2023, the disbursements were robust at about Rs. 2,905 crore. On a standalone basis, KBSPL's disbursements increased to Rs. 3,618.8 crore in FY2022 vis-à-vis Rs. 1,386.5 crore in FY2021 (Rs. 6,159.3 crore in FY2020). ICRA expects further improvement in disbursements over the medium term, which would drive portfolio growth, and support its earnings profile at the Group level backed by enhanced operating efficiency.

KBSPL's loan portfolio increased to Rs. 1,383 crore as on June 30, 2022 from Rs. 1,162 crore as on March 31, 2022 (Rs. 652 crore as on March 31, 2021). The consolidated portfolio stood at Rs. 2,523 crore as on June 30, 2022 compared to Rs. 816 crore as on March 31, 2021. The Group expects to achieve a portfolio of ~Rs. 4,500 crore (own book and partner book) by FY2023 with disbursements expected to scale up sharply to about ~Rs. 14,000 crore in FY2023.

Comfortable capital structure – KBSPL's capital structure has been comfortable with a gearing (as per IndAS) of 1.7x as of June 30, 2022 and 1.3x as of March 31, 2022 compared to 0.9x as of March 31, 2021. At the Group level, the managed gearing (as per iGAAP) stood at 2.4x as on March 31, 2022 (3.2x as on June 30, 2022) vis-à-vis 0.9x as on March 31, 2021. Since inception, the Group has raised equity of USD 90.5 million. ICRA notes that the company is expecting to raise another sizable round of

¹ Indian Generally Accepted Accounting Principles; data is provisional

² Indian Accounting Standards; data is provisional

equity over the next few months, which would further support its capital requirement to meet its medium-term growth plans. The group is expected to operate at a leverage of less than 4.0x in the near to medium term.

Improvement in earnings profile, which is expected to continue – The Group’s earnings profile was significantly impacted during the pandemic (FY2021-H1 FY2022), on account of subdued disbursements. Overall disbursements in FY2021 and H1 FY2022 stood at Rs. 2,133.6 crore and Rs. 1,729.2 crore, respectively. This impacted the Group’s fee income in FY2021 and H1 FY2022, while it incurred relatively higher credit and operating costs in relation to the overall income during this period. The operating cost-to-income³ ratio, which stood at 40.8% in FY2020, deteriorated significantly to 85.3% in FY2021 and 91.9% in H1FY2022. Consequently, the loss at the Group level stood at Rs. 131.0 crore in H1 FY2022 and Rs. 100.6 crore in FY2021 vis-à-vis a profit of Rs. 130.8 crore in FY2020.

With disbursements picking up again from H2 FY2022 (post the second wave of the pandemic), its cost-to-income ratio started improving again and stood at 66.4% in H2 FY2022 and 59.7% in Q1 FY2023. Consequently, the Group reported a net profit of Rs. 82.9 crore in H2 FY2022, resulting in a reduction in the net loss for the full year (FY2022) to Rs.48.1 crore; the earnings improved further in Q1FY2023 with a net profit of Rs.24.4 crore (profit after tax (PAT)/average managed assets (AMA) of 3.5%). ICRA notes that the Group’s credit and provision costs remain at elevated levels given the unsecured nature of the asset class. As such, its ability to keep the credit costs under control on a sustained basis would remain crucial from a rating perspective.

Credit challenges

Moderate asset quality and borrower profile – The Group’s credit costs were affected by the loan losses due to the impact of the pandemic-related disruptions. For FY2022, credit and provision costs, as a percentage of average total disbursements⁴ stood at 5% compared to 3.2%⁵ for FY2021. KBSPL’s collection efficiency on payments due between December 2021 and June 2022 stood at about 91-95%; ultimate losses on these remain a key monitorable. The total restructured portfolio (standard assets) stood at ~Rs. 119.4 crore as of March 2022 (10.3% of KBSPL’s loan portfolio as of March 2022). KBSPL’s 90+ days past due (dpd) stood at 4.4% as of June 2022 (2.85% as of March 2022) compared to 8.6% as of March 2021. ICRA notes that apart from the in-house tele-calling team, the company has a separate collections team through tie-ups with third party agencies for making collections from the hard-delinquent buckets.

The company’s borrowers comprise self-employed/salaried young professionals with income starting from Rs. 2,00,000 per annum. Its loan ticket size ranges from Rs. 3,000 -Rs.3,00,000, depending on the borrower profile and loan product. ICRA takes note of the company’s other value-added products like a loan linked insurance product and credit score reports.

Risks relating to data security and privacy and changes in regulatory norms – The Group is highly dependent on technology for loan sourcing and management. ICRA notes that the sourcing and storage of all customer data (including identity proof, income proof and personal details) are in a digital form. This exposes it to data security risks and liabilities in case of any breach in data storage or any adverse regulatory developments, which can impact the data sourcing required for loan origination. ICRA notes that the company carries out regular data security audits, which mitigates the risks to some extent. Going forward, the company remains vulnerable to the dynamic regulatory landscape in the digital lending space and any adverse impact on its operations would be a key monitorable.

³ Operating expenses/ Net interest income

⁴ Based on average of total disbursements made in FY2021 and FY2022

⁵ Based on average of total disbursements made in FY2020 and FY2021

Liquidity position: Adequate

KBSPL's asset-liability maturity (ALM) profile, as on August 31, 2022, had no negative cumulative mismatches in any of the buckets. Given the short-term nature of the disbursed loans compared to the company's borrowings, the liquidity profile is expected to remain adequate. The company had cash and liquid investments of Rs. 49 crore (Rs. 261 crore on a group level) as on September 1, 2022, while its debt repayments between September 2022 and December 2022 stand at Rs. 710 crore. Un-utilised sanctions from banks stood at Rs. 55 crore.

Rating sensitivities

The rating sensitivities have not been captured as the rated instrument has been withdrawn.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Methodology for Consolidation and Rating Approach Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated financial and business profile of FPL and its subsidiaries – KBSPL, FTSP and KTPL

About the company

KrazyBee Services Private Limited (KBSPL) was co-founded by Mr. Madhusudhan Ekambaram and others including Mr. Karthikeyan Krishnaswamy and Mr. Vivek Veda. It commenced operations in March 2016 and received an NBFC licence from the RBI in May 2017. KBSPL offers unsecured personal loans of up to Rs. 3,00,000 to young professionals with a tenor of up to 15 months. The company operates in the fintech lending space and its entire loan origination is via its mobile application platform under the brand name KreditBee. KBSPL is headquartered in Bengaluru and has a lending presence across India. As of June 2022, the Group's gross portfolio stood at Rs. 2,522.8 crore.

KBSPL is a 99.48% subsidiary of Singapore-based Finnov Private Limited (FPL). Apart from KBSPL, FPL has a 99.9% subsidiary, Finnovation Tech Solutions Private Limited (FTSPL), which owns the platforms KrazyBee.com and KreditBee.com, and a 99.3% subsidiary, Kartbee Technologies Private Limited (KTPL), which owns the platform KreditZy.com. The platforms act as a marketplace for connecting the borrowers with the lenders. For loans originated on the KrazyBee, KreditBee and KreditZy platforms, the technology companies receive origination fees and offer a first loss default guarantee (FLDG) to the extent of 5-10%. Apart from KBSPL, 11 partner companies originate loans via the Kreditbee platform.

Key financial indicators (unaudited, consolidated)

Finnov Private Limited	FY2020 (iGAAP)	FY2021 (iGAAP)	FY2022 (IndAS)	Q1FY2023(P)* (IndAS)
Total income	796.8	327.1	614.8	292.3
Profit after tax	130.8	-100.6	-48.1	24.4
Net worth	473.6	696.6	659.1	683.8
Total managed portfolio	1,099.9	816.4	1951	2522.8
Total managed assets	1,606.3	1,454.3	2,457.8	3,127.7
Return on managed assets (%)	12.0%	-6.6%	-2.46%	3.50%
Return on net worth (%)	32.2%	-17.2%	-7.1%	14.5%
Gearing (times)	2.0	0.9	2.4	3.2

* Provisional; Amount in Rs. crore

Key financial indicators (audited) – Standalone

KrazyBee Services Private Limited	FY2020 (iGAAP)	FY2021 (IndAS)	FY2022 (IndAS)	Q1FY2023(P)* (IndAS)
Total income	263.8	153.4	204.3	85.6
Profit after tax	42.0	28.0	28.8	9.9
Net worth	306.4	537.5	606.5	617.2
Total managed portfolio	957.5	652.4	1,161.5	1,383.1
Total managed assets	1,147.1	1,091.0	1,538.9	1,831.3
Return on managed assets (%)	5.5%	2.5%	2.2%	2.4%
Return on net worth (%)	15.7%	6.6%	5.0%	6.5%
Gearing (times)	2.6	0.9	1.3	1.7
Gross NPA (%)	5.7%	7.3%	2.9%	4.4%
Net NPA (%)	2.9%	2.0%	0.8%	1.6%

* Provisional; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating Date & Rating in FY2023	Chronology of Rating History for the Past 3 Years				
						Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
						Oct 26, 2022	Jan 11, 2022	May 07, 2021	Oct 06, 2020	Sep 18, 2019
1	Term Loan	Long term	-	-	-	[ICRA]BBB-(Positive); withdrawn	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	NA
2	Commercial paper	Short term	-	-	-	[ICRA]A3; withdrawn	[ICRA]A3	[ICRA]A3	[ICRA]A3	NA
3	Market linked debentures	Long term	50.00	0.00	PP-MLD[ICRA]BBB (Stable); withdrawn	PP-MLD[ICRA]BBB-(Positive)	PP-MLD[ICRA]BBB-(Stable)	NA	NA	NA

Complexity level of the rated instruments

Instrument	Complexity Indicator
MLD programme	Moderately Complex

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
INE07HK07213	Market linked debentures	Jun 18, 2021	10-year G-Sec Linked	Sep 19, 2022	50.00	PP-MLD[ICRA]BBB (Stable); withdrawn

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Finnov Private Limited	100.00%	Full Consolidation
KrazyBee Services Private Limited	99.48%	Full Consolidation
Finnovation Tech Solutions Private Limited	99.9%	Full Consolidation
Kartbee Technologies Private Limited	99.30%	Full Consolidation

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