January 22, 2024

Amica Finance Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term/ short-term fund-based/ non-fund-based bank lines	90.00	[ICRA]BB (Stable)/ [ICRA]A4; assigned
Total	**90.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings for Amica Finance Private Limited's (AFPL) factor in the benefits it derives from being a part of Amica Financial Technologies Private Limited's (AFTPL; Jupiter*) ecosystem. AFPL leverages the Jupiter platform and its client base for loan originations, in addition to funding access in the form of inter-corporate deposits (ICD). The ratings for AFPL are, however, constrained on account of its modest scale of operations, limited financial flexibility and modest profitability indicators, given the nascent stages of operations. AFPL is involved in the business of providing short-term unsecured personal loans with an average ticket size of ~Rs. 26,000 for non-interest-bearing loans and ~Rs. 31,500 for interest-bearing loans.

The company started disbursements in June 2023 and had assets under management (AUM) of Rs. 60.5 crore as on September 30, 2023, with the cumulative disbursements of Rs. 94.1 crore during H1 FY2024. In addition to the planned on-book growth, the company intends to grow through the co-lending route going forward. The rating also factors in the modest capital base of the company with a net worth of Rs. 31.3 crore as on September 30, 2023. ICRA notes that the company is in the process of augmenting the capital base further in the current fiscal by raising capital from new investors, which is likely to conclude before March 2024. Nevertheless, in ICRA's opinion, prudent capitalisation is a key mitigant against the risks associated with the company's asset book. Moreover, the company would need to continuously raise capital to fund its growth, since internal capital generation is expected to remain muted over the medium term.

Given the limited track of operations, the asset quality for the company is yet to be established. Further, AFPL's financial flexibility is limited owing to its few funding tie-ups and large dependency on a few banks and non-banking financial companies (NBFCs) to meet its funding requirement, and the company would need to expand its lending relationships as it grows. As for profitability, it is expected to remain subdued over the near term until the company achieves economies of scale. Although ICRA expects the overall profitability indicators to improve gradually, the ability to limit fresh slippages and raise funding at competitive rates while growing business volumes would be a key rating monitorable.

Key rating drivers and their description

Credit strengths

Linkage and access to Jupiter ecosystem – AFPL is the associate entity of Jupiter and benefits from Jupiter's ecosystem by utilising its technology platform for loan origination, underwriting and management. Jupiter is the neo-banking platform operated by AFTPL and is a partner for Federal Bank. It was founded by Mr. Jitendra Gupta in 2019 and offers a range of financial services, including savings accounts, debit cards, SIPs, mutual funds, among others. Jupiter provides a user interface for customers to avail loan products from AFPL after opening the salary/ savings account over its platform. The linkages with Jupiter's ecosystem and the access to the customer database of Jupiter are expected to help AFPL in growing its loan base. At present, AFPL is incurring customer acquisition and technology costs against the services availed, which is about ~2% of the AUM. Furthermore, Jupiter extended funding support to AFPL in the form of ICDs of Rs. 40 crore in Q3 FY2024.

**Jupiter is a neo-banking platform operated by Amica Financial Technologies Private Limited (AFTPL)*

Credit challenges

Limited track record of operations – AFPL started disbursements in June 2023 after receiving the NBFC license in April 2023. The company reported an AUM (including the co-lending portfolio) of Rs. 60.5 crore as on September 30, 2023, and is involved in the business of short-tenure unsecured finance (average tenure of ~6 months). As the company's track record has been limited and the scale is modest at present, the asset quality indicators are yet to be tested across the economic cycles as the business scales up. ICRA expects the scale to increase over the medium term, supported by regular capital raise.

Limited financial flexibility – AFPL's financial flexibility remains limited owing to its limited funding tie-ups. The company has borrowings from a few banks and larger NBFCs. ICRA notes that the company has been expanding its funding relationships to include banks and NBFCs and has also raised debt in the form of ICDs from Jupiter. The average cost of funds was in the range of 11-12%, with the average tenure of borrowing at around 24 months. Also, the company is expecting to meet the funding requirements incrementally by increasing the share of co-lending partnerships. AFPL's ability to diversify its funding profile and draw larger funding lines from banks and other sources would be important to scale up its operations.

Modest profitability indicators – The profitability was subdued due to the small scale and high initial set-up costs with limited interest income arising out of initial disbursements during H1 FY2024. The company reported a net interest income of Rs. 1.9 crore and a net profit of Rs. 0.3 crore in H1 FY2024. The operating expense is expected to remain elevated in the near term with the high influx of preliminary costs, and the same shall moderate with the increase in scale of operations. Such factors, along with the control on credit cost, considering the target segment, would be key for earnings going forward.

Liquidity position: Adequate

As on September 30, 2023, the company expected inflows from advances of Rs. 69.6 crore over the next one year against scheduled debt obligations of Rs. 25.3 crore over the same period. Further, AFPL has cash and cash equivalents of Rs. 10.4 crore and liquid investments amounting to Rs. 6.2 crore as on September 30, 2023. Additionally, AFPL has ~Rs. 10 crore of sanctioned but un-availed bank lines as of the same date. The collection efficiency is maintained at ~92% as on September 30, 2023. Going forward, its ability to raise fresh funds in a timely manner will be important from a liquidity perspective.

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 – Deterioration in the asset quality indicators, resulting in liquidity pressure, could lead to a rating downgrade.

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	Standalone

About the company

AFPL was incorporated on December 31, 2019, as an NBFC. The company extends unsecured loans to individuals. AFPL commenced disbursements from June 2023 and is actively disbursing on-demand salary (ODS) loans and unsecured personal loans, with an average ticket size of ~Rs. 26,000 for non-interest-bearing loans and ~Rs. 31,500 for interest-bearing loans, with an average tenor of ~6 months. At present, there are three directors in the company, Mr. Jitendra Gupta (holding 100% of the shares), Ms. Smita Kumar and Mr. Piyush Kabra. The promoter, Mr. Jitendra Gupta owns a 36.5% stake in AFTPL, a Neo-bank startup founded in August 2019, with over 70 institutional investors, including Alteria Capital, Tiger Global and Sequoia Capital.

AFPL reported a profit after tax (PAT) of Rs. 0.3 crore on total assets of Rs. 71.0 crore in H1 FY2024 compared to a loss of Rs. 0.3 crore on total assets of Rs. 2.2 crore, respectively in FY2023. As on September 30, 2023, the total AUM stood at Rs. 60.5 crore, consisting of ~89% (Rs. 54.0 crore) of the on-book portfolio and ~11% (Rs. 6.5 crore) off-book portfolio. It reported a capital-to-risk-weighted assets ratio (CRAR) of 40.3% as on September 30, 2023, and a gearing of 1.2 times (managed gearing of 1.4 times) as on September 30, 2023.

Key financial indicators

Amica Finance Private Ltd.	FY2022	FY2023	H1 FY2024
Total income	0.1	0.1	3.1
Profit after tax	0.0	(0.3)	0.3
Total managed assets	2.4	2.2	77.6
Return on managed assets	1.4%	NA	1.4%
Gearing (managed; times)	-	-	1.4
Gross NPA	-	-	-
Capital adequacy ratio	-	-	40.3%

Source: Company, ICRA Research; Amount in Rs. crore; 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

S. No.	Instrument	Current Rating (FY2024)				Rating History for the Past 3 Years		
		Type	Rated Amount (Rs. crore)	Amount Outstanding^ (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jan-22-2024	-	-	-
1	**Long-term/ short-term bank limits**	Long term and short-term	90.0	37.9	**[ICRA]BB (Stable)/ [ICRA]A4**	-	-	-

Source: ICRA Research; ^Outstanding as on September 30, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/ short-term fund-based/ non-fund based bank lines	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 as on September 30, 2023

ISIN	Instrument Name	Year of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term fund-based/Non-fund based bank lines	2023	NA	2025	28.75	[ICRA]BB (Stable)/[ICRA]A4
NA	Long-term/Short-term fund-based/Non-fund based bank lines	2023	NA	2024	9.17	[ICRA]BB (Stable)/[ICRA]A4
NA	Long-term/Short-term fund-based/Non-fund based bank lines^	NA	NA	NA	52.08	[ICRA]BB (Stable)/[ICRA]A4

Source: Company; ^Unutilised

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

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

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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.

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