March 28, 2024

InCred Financial Services Limited: [ICRA]AA- (Stable)/[ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	100.00	[ICRA]AA- (Stable); assigned
Commercial papers	300.00	[ICRA]A1+; assigned
Total	**400.00**	

**Instrument details are provided in Annexure I*

Rationale

The assigned ratings factor in InCred Financial Services Limited's (IFSL) healthy capital profile, backed by regular capital infusions (most recent capital infusion of Rs. 500.0 crore in Q3 FY2024), which has supported the growth of its assets under management (AUM; ~58% in FY2023 and ~43% in 9M FY2024). The company's overall risk profile is supported by the diversified product mix with personal loans (PLs) accounting for 45.3% of the AUM, followed by student loans (22.1%), anchor & escrow backed business loans (18.3%), secured school financing (3.7%), loan against property (LAP; 2.6%) and loans to financial institutions (8.0%). ICRA expects the share of the different product segments in the AUM to remain range-bound at the current levels over the near to medium term. The ratings also consider IFSL's improving profitability {profit after tax (PAT)/average managed assets (AMA), on a consolidated basis, of 3.4% and 2.1% in 9M FY2024 and FY2023, respectively, vis-à-vis 1.0% in FY2022}, 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 loan products. Growth was also seen in the company's managed book[1], which accounted for 18.9% of the AUM in December 2023. 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 58% during the last 21 months and accounted for 28.4% of the AUM as of December 2023. PLs originated by IFSL (38.5% of AUM in December 2023) 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 personal loan book (6.8% of AUM in December 2023) 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 (18.3% of AUM in December 2023) to borrowers operating on various e-commerce and other platforms and also extends supply chain finance. IFSL is also engaged in unsecured product segments and extends credit to borrowers who are susceptible to volatility in their cash flows. Nevertheless, IFSL's asset quality profile is currently under control, characterised by gross stage 3 of 2.6% and overall provision to AUM of 2.6% of the AUM as of December 2023 vis-à-vis 2.1% and 2.7%, respectively, as of March 2023.

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 33.3% (Tier I) as of December 2023, supported by capital infusions and improving internal accruals. Although

[1] *Co-lending and direct assignment*

the capital adequacy ratio was impacted by the increase in the risk weights applicable for consumer credit with respect to 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 in FY2023 had increased the net worth by ~Rs. 1,250 crore, positively impacting the capitalisation profile. The consolidated net worth stood at Rs. 3,222.3 crore (provisional) as of December 2023[2] with a managed gearing[3] of 2.0 times. The company envisages expanding at a CAGR of 35-40% during FY2024-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 has a diversified loan product offering consisting of PLs (45.3% of the AUM in December 2023), student loans (22.1%), secured school financing (3.7%), LAP (2.6%), anchor & escrow-backed business loans (18.3%) and financial institution loans (8.0%). 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 (15% of the PL AUM), which typically has loan loss covers through first loss default guarantees (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 51 branches and 1,638 employees as of December 2023; a sizeable part of its operations is technology driven.

Improving profitability indicators – On a consolidated basis, the company's PAT/AMA improved to 3.4% and 2.1% in 9M FY2024 and FY2023, respectively, from 1.0% in FY2022. 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. PAT/AMA adjusted for these recoveries would have been 2.9% and 0.8% in 9M FY2024 and FY2023, respectively. Keeping the credit costs under control and improving the operating efficiency further would be key, going forward, from an earnings perspective.

Credit challenges

High portfolio growth, resulting in limited portfolio seasoning – IFSL's AUM grew by ~58% in FY2023 and ~43% in 9M FY2024 and stood at Rs. 8,013 crore as of December 2023. PLs and anchor & escrow-backed business loans grew by ~73% and ~57%, respectively, in FY2023 and ~56% and ~22%, respectively, in 9M FY2024. Student loans grew by ~120% and ~94% in FY2023 and 9M 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 a 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 gross stage 3 (GS3) remaining under 2.6% (2.6% as of December 2023) 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 December 2023 vis-à-vis 2.7% in March 2023 while the stage 3 provision coverage ratio (PCR) stood at ~56% in December 2023. Write-offs (as a percentage of opening book) stood at 0.9% (annualised) in 9M FY2024 and 1.2% in FY2023. The 90+ days past due (dpd) on one-year lagged basis (90+ dpd of current year divided by previous year AUM) was 3.3% as of December 2023 vis-à-vis 3.0% as of March 2023.

In the PL segment, the 90+ dpd stood at 3.3% of the AUM as of December 2023 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 2.1% and 2.2% in December 2023 and March 2023, respectively). The 90+ dpd in the student loan segment was minimal at 0.1% in December 2023, supported by the collection efficiency of 99-100% in the last 18 months. The 90+ dpd in the business loan

[2] *Adjusted for deferred tax assets, the consolidated net worth and managed gearing stood at Rs. 2,816.8 crore and 2.3 times, respectively*
[3] *(on-book debt + off book debt)/ net worth*

segment stood at 2.4% in December 2023 and 1.7% in March 2023. 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. 1,244 crore and undrawn bank lines of Rs. 335 crore as of December 2023, against debt obligations of Rs. 1,244 core during January-June 2024. The asset liability management profile, as of December 2023, had no negative cumulative mismatches in any of the buckets. Borrowings (including managed book) comprised 57% from banks, 26% from non-banking financial companies (NBFCs) and financial institutions, and 18% from capital market sources.

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) is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). In FY2023, the erstwhile IFSL was merged with KKR India Financial Services Limited (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. KKR India Financial Services Limited) 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 December 2023, IFSL had operations in 13 states with 51 branches across 43 districts.

Key financial indicators – Consolidated

IFSL	FY2022	FY2023	9M FY2024*
Total income	524	877	930
PAT#	35	121	224
Total managed assets	4,147	7,267	10,072
Return on managed assets	1.0%	2.1%	3.4%
Managed gearing (times)	2.5	1.8	2.0
Gross stage 3	2.8%	2.1%	2.6%

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

Key financial indicators – Standalone

IFSL	FY2022	FY2023	9M FY2024*
Total income	511	876	929
PAT	36	121	225
Total managed assets	4,136	7,356	10,084
Return on managed assets	1.0%	2.1%	3.4%
Managed gearing (times)	2.6	1.8	2.0
Gross stage 3	2.8%	2.1%	2.6%
CRAR	28.1%	33.4%	33.7%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 28, 2024			
1	**Non-convertible debentures**	Long term	100.00	0.00	**[ICRA]AA- (Stable)**	-	-	-
2	**Commercial Papers**	Short term	300.00	0.00	**[ICRA]A1+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Simple
Commercial Papers	Very simple

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
NA	**NCD***	NA	NA	NA	100.00	[ICRA]AA- (Stable)
NA	**CP***	NA	NA	NA	300.00	[ICRA]A1+

*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 annual report FY2023

*Note: ICRA has taken a consolidated view of IFSL while assigning the rating; *These companies were consolidated only up to FY2023.*

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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.

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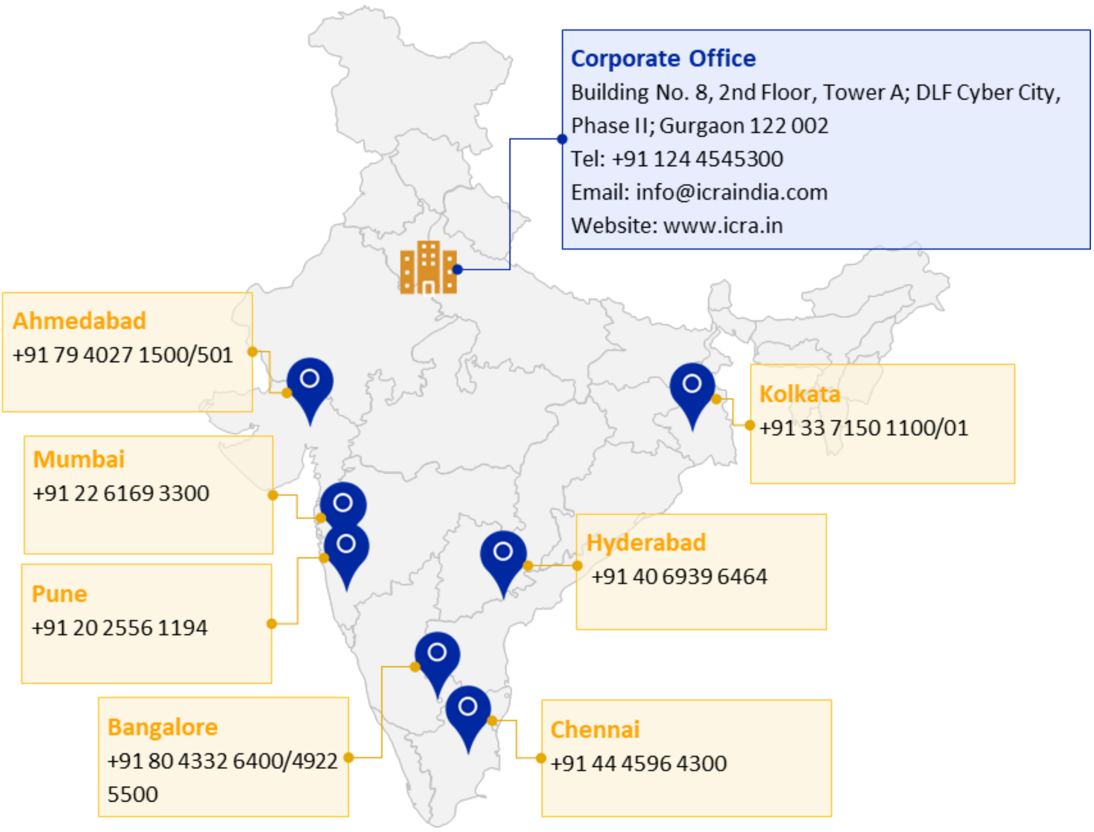

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