

September 05, 2024

Hiveloop Capital Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based	103.00	103.00	[ICRA]BBB- (Stable); reaffirmed
Short term – Fund based	397.00	397.00	[ICRA]A3; reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure I

Rationale

The ratings reaffirmation factors in Hiveloop Capital Private Limited's (HCPL) adequate capitalisation profile, and its linkages with the Udaan group. The company largely extends short-term supply chain finance to small businesses and micro, small and medium enterprises (MSMEs), and had a portfolio outstanding of Rs. 359 crore as of March 2024. Over the last two years, HCPL has been gradually transitioning from financing supply chain (SCF) transactions undertaken on the udaan e-commerce platform (on-udaan transactions) to SCF transactions undertaken outside the udaan e-commerce platform (off-udaan/Pratishtha loans). However, the company continues to be dependent on the group's IT systems/software for loan origination, due diligence, servicing, etc.¹

The ratings factor in the company's moderate profitability considering its low leverage; earnings are constrained by margin pressure and elevated operating expenses. ICRA also notes that HCPL's asset quality remains moderate with the portfolio at risk (PAR) 0 and PAR 90 at 6.1% and 1.6%, respectively, as of March 2024; though, the overall loan losses have been significantly curtailed given the first loss default guarantees (FLDG) from the Group. However, incrementally HCPL would not be having any FLDG support from its group; as such, ICRA expects HCPL's credit losses to witness some increase in the near term. Over the longer term, the company's ability to maintain a sustainable level of asset quality performance in the Pratishtha loan product would be crucial as the share of these in the overall portfolio is expected to increase steadily.

HCPL is adequately capitalised with a net worth of Rs. 274 crore as of March 2024. Further, its funding profile is commensurate with the current scale of operations. However, incrementally, its ability to scale up, while sustaining and diversifying its funding profile would be critical. Overall, ICRA expects the company's leverage to be maintained below 2x in the near term.

Hiveloop Technology Private Limited (HTPL), the key Group company, reported a loss of Rs. 665.8 crore (provisional) on a standalone basis in FY2024. The losses have moderated from a peak of Rs. 1,757.2 crore in FY2022 (Rs. 1,080.8 crore in FY2023). ICRA also notes that other Group entities have also been reporting losses in the past. Nevertheless, the loss levels for the group are expected to improve over the near-to-medium term. Udaan Group's received capital of \$340 million in December 2023, via a combination of fresh equity infusion (around \$112.5 million) and conversion of existing debt into equity. This would support the group's requirement in the near term.

¹ HCPL would be undertaking customer acquisition and loan origination for disbursements by itself; however, the systems/ software for the origination, due diligence and servicing of loans continue to be managed by a group entity – Indusage Techapp Private Limited (ITPL)

Key rating drivers and their description

Credit strengths

Linkages to udaan group – The udaan group comprises the flagship business-to-business (B2B) e-commerce platform housed under HTPL and other associated services such as logistics and warehousing, payment services and fintech lending through various companies. The platform operates under the brand name ‘udaan’ and connects buyers (retailers, kirana shops, etc) to sellers (wholesalers, distributors and manufacturers) in more than 900 cities across India. The fintech business (udaan Capital) includes HCPL and ITPL (which hosts the digital lending platform). All the Group companies are directly/indirectly held by Trustroot Internet Private Limited (TIPL), a Singapore-based entity.

ICRA takes note of the significant interlinkage between HTPL, ITPL and HCPL; HTPL currently holds a 65% stake in HCPL and acts as a guarantor for the external debt raised by the latter. Over the last two years, HCPL’s disbursements have been gradually transitioning from on-udaan transactions (7.6% of loan portfolio outstanding as of March 2024 vis-à-vis 50.4% as of March 2022) to off-udaan transactions (63.8% of loan portfolio as of March 2024 vis-à-vis 49.6% as of March 2022); further, incrementally, HCPL has completely stopped funding of on-udaan transactions. As such, going forward, the company would be undertaking customer acquisition, loan origination and underwriting by itself, though, it would still continue to use the group’s IT systems {managed by Indusage Techapp Private Limited (ITPL)}. These apart, HCPL also has a portion of its loan portfolio in the form of short-term loans / overdraft to other entities in the Udaan Group (28.7% of loan portfolio as of March 2024). ICRA also notes that First loan default guarantee (FLDGs), which were provided by HTPL and ITPL against loans disbursed by HCPL would not be available going forward.

Adequate capitalisation profile of HCPL; Group’s track record in raising capital – HCPL had a net worth of Rs. 274 crore as of March 2024. At the Group level, the equity capital is raised by TIPL and down streamed to the Group companies as per their requirements. TIPL raised total equity capital of USD 1.3 billion and convertible notes of \$340 million till FY2024, through multiple series, for its operations in India. This includes the recently raised \$340 million in December 2023, via a combination of fresh equity investment of (around \$112.5million) and conversion of existing debt into equity. This capital raise was led by M&G Plc along with the participation of other existing equity investors-Lightspeed Venture Partners and DST Global. ICRA notes that the capital infusion would support the group’s near-term capital and liquidity profile. However, considering the sizeable losses at the Group level, timely and regular capital infusions would be critical until the group narrows down the losses significantly and achieves cash flow self-sufficiency going forward.

On a standalone basis, ICRA expects the capital structure to remain adequate and the leverage is expected to be maintained below 2x in the near term.

Credit challenges

Moderate track record of operations; sizeable, though moderating, losses at the Group level – HCPL received an NBFC licence from the Reserve Bank of India (RBI) in October 2018. It commenced operations in December 2018 with a focus on short-term working capital loans largely to the retailers and wholesalers/distributors transacting on the udaan e-commerce platform. HCPL’s involvement in the financing of such transactions is expected to reduce gradually over the near-to-medium term. Over the last three years, HCPL has diversified to offering unsecured supply chain financing loans and term loans for off-udaan transactions (SCF transactions undertaken outside the udaan e-commerce platform). Such SCF loans contributed 64% to the standalone gross portfolio as of March 2024. This is expected to increase steadily, with the company’s growing focus on this segment.

HTPL, the key Group company, reported a loss of Rs.665.8 crore (provisional) on a standalone basis in FY2024. The losses have moderated from a peak of Rs. 1,757.2 crore in FY2022 (Rs. 1,080.8 crore in FY2023). ICRA also notes that other Group entities have reported losses in the past. The Group has however been optimising its operations by discontinuing some product lines, which are seen to be unprofitable, phasing out business in unprofitable locations and reducing the on-field staff force as well as adopting a more cost-efficient approach in the marketplace. Currently, the group operates as a complete inventory-led e-

commerce business as opposed to a marketplace model previously. It has a track record of raising capital, though it would be critical to secure capital regularly, going forward as well, to maintain an adequate capital profile even as the business lines are optimised.

Moderate asset quality and earnings profile of HCPL – HCPL’s asset quality profile remains moderate, given the modest profile of its customers, with the PAR 0 and PAR 90 at 6.1% and 1.6%, respectively, as of March 2024. Historically, HTPL has compensated for the credit losses incurred on the lending carried out through the udaan platform. This had enabled it to keep the credit losses restricted. However, going forward, the company’s focus would be on financing transactions outside the udaan platform, without any default loss guarantees from the group. This SCF segment has shown a moderate asset quality profile, with PAR 0 and PAR 90 of 5.7% and 0.5%, respectively, and write-offs of 4.9% as of March 2024. Nevertheless, HCPL is expected to focus on anchor-based financing in this segment, where losses are lesser with lower write offs of 2.6% (on closing AUM) in FY2024, which would provide some support to the asset quality profile. Going forward, considering the evolving product profile, the ability to maintain consistent growth while keeping the credit costs under control would be key from a credit perspective.

HCPL reported a net profit of Rs. 8.9 crore in FY2024 on a portfolio of Rs. 359 crore (net profit of Rs. 3.1 crore² (As per IndAS) in FY2023 on a portfolio of Rs. 322 crore and net profit of Rs. 1.3 crore on a portfolio of Rs. 354 crore in FY2022). The return on managed assets (RoMA) had increase to 2.0% in FY2024 as compared to 0.7% in FY2023 and 0.8% in FY2022, supported by lower credit costs (0.4% in FY2024 vis-à-vis 1.5% in FY2023). However, ICRA notes that HCPL’s performance would be closely linked to the Group’s performance, considering the various interlinkages with Group entities, especially with ITPL (the digital lending platform).

Strengthening of funding profile critical for growth plans – As of May 2024, HCPL had debt outstanding from 10 lenders. The funding profile remains skewed towards NBFCs, with borrowings outstanding from nine NBFCs and two private banks as of May 2024. Going forward, HCPL would have to sustain funding from existing/ past lenders and steadily diversify its funding profile to its growth requirements. Further, given the margin pressure witnessed in the segment in which HCPL operates, it would be critical for the company to secure funding at competitive rates.

Liquidity position: Adequate

The company had cash, liquid investments, and fixed deposits of Rs. 56.6 crore as of May 2024. The debt obligations from June 2024 to May 2025 stood at Rs. 132.8 crore. Monthly collections averaged Rs.225.1 crore between April 2023 and June 2024. The available on-book liquidity, as of May 2024, and collections would be sufficient to fund the debt obligations for the next six months.

Rating sensitivities

Positive factors – HCPL’s ratings would be positively impacted if there is a substantial improvement in the Group’s earnings profile. Further, a sustained improvement in HCPL’s profitability and good quality scale-up would positively impact the ratings.

Negative factors – Pressure on HCPL’s ratings could arise if there is a material deterioration in the asset quality, impacting the earnings profile. The Group’s inability to raise capital in a timely manner would also negatively impact the ratings.

² Net profit as per IGAAP - Rs. 2.8 crore

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	The ratings are based on the standalone financials of HCPL

About the company

Hiveloop Capital Private Limited (HCPL), incorporated in December 2016, is a non-deposit taking NBFC registered with the RBI. It offers unsecured MSME loans. The company commenced business from December 12, 2018 and had a net portfolio of Rs.359 crore as on March 31, 2024. HCPL is held by HTPL (65%) and Singapore-based Unison Private Limited (35%), which is a 100% subsidiary of TIPL. Equity capital of Rs. 242 crore has been infused into HCPL till date from Group companies (HTPL and Unison Private Limited).

Key financial indicators

HCPL	FY2023*	FY2024
Total income	59.2	60.8
Profit after tax	3.1	8.9
Total Managed Asset**	430.4	434.5
Return on managed assets	0.7%	2.0%
Gearing (times)	0.6	0.5
Gross Stage 3	1.5%	0.3%
CRAR	77.8%	70.6%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; *As per IndAS

** Total Managed Assets = Total Assets + Impairment loss allowance

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Sep-05-2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long Term Fund Based	Long term	103.00	[ICRA]BBB-(Stable)	Dec-19-2023	[ICRA]BBB-(Stable)	Oct-31-2022	[ICRA]BBB-(Stable)	Oct-27-2021	[ICRA]BBB-(Stable)
Short Term Fund Based	Short term	397.00	[ICRA]A3	Dec-19-2023	[ICRA]A3	Oct-31-2022	[ICRA]A3	Oct-27-2021	[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based	Simple
Short term – Fund based	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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund based	Oct-2022	NA	Jan-2025	3.00	[ICRA]BBB-(Stable)
NA	Short term – Fund based	Sep-2023-Jul-2024	NA	Sep-2024-Aug-2025	143.27	[ICRA]A3
Unallocated	Long term – Fund based	NA	NA	NA	100.00	[ICRA]BBB-(Stable)
Unallocated	Short term – Fund based	NA	NA	NA	253.73	[ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	NA	NA

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Branches



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