

October 27, 2021

Hiveloop Capital Private Limited: [ICRA]BBB-(Stable)/[ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Bank Facilities	118.02	[ICRA]BBB-(Stable); assigned
Short Term – Bank Facilities	381.98	[ICRA]A3; assigned
Total	500.00	

*Instrument details are provided in Annexure-1

Rationale

Hiveloop Capital Private Limited (HCPL) is the non-banking financial company (NBFC) lending arm of udaan Group. The ratings factor in udaan Group’s experienced founders and HCPL’s senior management team. udaan Group is a full-stack service provider of business-to-business (B2B) e-commerce with the holding company, Trustroot Internet Private Limited (TIPL), based in Singapore. Hiveloop Technology Private Limited (“HTPL”) holds 65% stake in HCPL as of March 2021 and it houses the e-commerce platform of the group; logistics business (operating with the brand name “udaan Express”), payments services and digital lending platform are housed under separate entities of the udaan group. HTPL and other udaan group entities are direct or step-down subsidiaries of TIPL. ICRA takes note of the interdependence and synergies between the various entities in the Group, which are expected to drive the business scale-up. The ratings also factor in the Group’s track record in raising equity capital and HCPL’s adequate capitalisation profile with a leverage of 1.0x as on March 31, 2021. ICRA, however, notes the sizeable losses at the Group level; thus, timely and regular capital raising at the Group level would be crucial going forward.

The ratings also take into consideration HCPL’s limited track record of operations and its moderate asset quality. HCPL commenced lending operations in FY2019 and its total disbursements till September 2021 exceed Rs. 10,000 crore. The company largely extends short-term working capital finance to small businesses and micro, small and medium enterprises (MSMEs), with a portfolio outstanding (excluding write-offs) of Rs. 390 crore as of September 2021.

The asset quality is moderate with portfolio at risk (PAR) 0 and PAR 90 at 16.4% and 5.9%, respectively, as on March 31, 2021. The PAR 90 (including write-offs) increased to 9.6% as on September 30, 2021, largely on account of the disruptions caused by the second wave of the Covid-19 pandemic. The ratings also consider HCPL’s modest earnings performance (RoMA¹ at 0.6% for FY2021 and at 0.5% for FY2020). ICRA notes that HCPL’s funding profile is commensurate with the current scale of the operations; however, it is important to diversify the same considering the growth plans. Going forward, HCPL’s ability to achieve healthy risk-adjusted profitability and maintain an adequate capital structure would be a key monitorable.

Key rating drivers and their description

Credit strengths

Experienced founders and management team – HCPL is the NBFC arm of udaan Group, which was co-founded by Mr. Amod Malaviya, Mr. Sujeet Kumar and Mr. Vaibhav Gupta. Prior to establishing udaan Group, Mr. Malaviya was the Chief Technology Officer at Flipkart and Mr. Kumar was the President of Operations at Flipkart. Mr. Gupta was the Senior Vice

¹ Return on managed assets – Profit after tax/Average managed assets

President, Business Finance and Analytics at Flipkart and is currently the Group Chief Executive Officer. HCPL is a subsidiary of HTPL, which holds a 65% stake while the balance is held by another Group company, Unison Private Limited. HCPL's senior management team has diverse experience in several segments including banking and financial services, data analytics, risk management and e-commerce and is involved in its day-to-day business and operations. Mr. Malviya is on the company's board. Mr. Chaitanya Adapa (Managing Director of HCPL) has more than 15 years of industry experience and was previously associated with Flipkart Payment Gateway Services Private Limited as Head of Sales and Operations.

udaan Group is full-stack service provider in B2B e-commerce space; synergies among Group companies expected to drive overall growth – udaan Group centrally comprises the B2B e-commerce platform housed under HTPL. This platform operates under the brand name 'udaan' and connects buyers (retailers, kirana shops, etc.) to sellers (wholesalers, distributors and manufacturers) across more than 900 cities pan-India and enables purchase and sales across more than 15 product categories. There are over 3 million registered users and 25,000-30,000 sellers on the B2B e-commerce platform covering more than 12,000 pin codes. The Group, via HCPL and other third-party lenders, also supports in providing working capital financing to players operating on the e-commerce platform and other such borrowers who do not operate on the platform. To facilitate secured transactions, all the money flows of the Group happen via its company offering payment services. The group has currently applied for a payment aggregator and payment gateway licence to facilitate secured transactions on the e-commerce platform and the digital lending platform. Additionally, the Group extends warehousing and logistics services via its company operating by the brand name, "udaan Express" to facilitate trade on the e-commerce platform. The Group's fintech business (udaan Capital) includes HCPL and a digital lending platform. The digital lending platform facilitates the credit business by enabling HCPL and other third-party lenders (banks and other NBFCs) to extend credit to small businesses and MSMEs. All the Group companies are directly/indirectly held by TIPL.

ICRA takes note of the significant interlinkages between HTPL and HCPL; HTPL currently holds 65% shareholding in HCPL and acts as a guarantor for the external debt raised by HCPL. HTPL also extended a first loan default guarantee (FLDG) against loans disbursed by HCPL and another third-party lender to the buyers/sellers on the udaan e-commerce platform till FY2021. Going forward, HCPL would extend FLDG to third-party lenders operating on the digital lending platform. About 58% of HCPL's portfolio as of September 30, 2021 constituted working capital loans extended for transactions undertaken on the e-commerce platform. HCPL receives a subvention fee from HTPL for some of the loan products offered on the platform; 44% of HCPL's total income in FY2021 was in the form of subvention fee. Additionally, 42% of HCPL's gross portfolio as on September 30, 2021, comprised loans to MSMEs and small businesses for their transactions outside the e-commerce platform (i.e. Pratishta loan product). In some cases, such loans are backed by the anchor companies on the digital lending platform.

The entire loan origination (except credit underwriting) and collection process for the financing business is handled via the digital lending platform. Further, all financial transactions are routed through the group entity offering payment services. As an NBFC, HCPL is a lender to MSMEs/small business borrowers both on and off the udaan e-commerce platform and would be devising more financial products for facilitating trade for MSME borrowers. ICRA notes that HCPL operations derives synergies from the various udaan group entities and thus HCPL's growth is dependent on the overall group performance.

Group's track record in raising capital; adequate capitalisation profile for HCPL – HCPL's gearing stood at 1.0x as on March 31, 2021 and 0.7x as on March 31, 2020. This has been supported by the capital infusion of Rs. 242 crore between FY2018 and FY2021. At the Group level, equity capital is raised by TIPL and down-streamed to the Group companies as per their requirement. TIPL has raised total equity capital of USD 1.15 billion till FY2021 through four series for its operations in India. It does not have any other business interest apart from udaan Group. However, considering the sizeable losses at the Group level, timely and regular capital infusion is critical going forward. The Group has a track record of raising capital, having raised USD 1.15 billion between FY2017 and FY2021. The most recent capital raise of USD 280 million was in January 2021. The key investors at TIPL include Lightspeed Venture Partners and DST Global amongst others.

On a standalone basis, HCPL's gross portfolio stood at Rs. 353 crore as of March 2021 and is expected to increase at a compound annual growth rate (CAGR) of 25% over the next three years. ICRA expects the capital structure to remain adequate and the leverage is expected to be capped at 2x in the near term.

Credit challenges

Limited track record of operations and moderate asset quality for HCPL – 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, wholesalers/distributors transacting on the udaan e-commerce platform. However, over the last three years, HCPL has diversified and now also offers unsecured working capital loans to borrowers outside the e-commerce platform and such loans contributed 42% to the standalone gross portfolio as of September 2021. HCPL's own portfolio (excluding write-offs) stood at about Rs. 390 crore as on September 30, 2021 (Rs. 353 crore as on March 31, 2021 and Rs. 249 crore as on March 31, 2020). The assets under management (AUM) of udaan Capital, i.e. including the portfolio originated by other third-party lenders on the digital lending platform, stood at Rs. 414 crore as of June 2021 (Rs. 435 crore as of March 2021).

Till FY2021, there was one third-party lender on the digital lending platform and four more lenders have been onboarded so far in FY2022. In the medium term, ~65-70% of udaan Capital's AUM is expected to be contributed by third-party lenders with HCPL accounting for the balance. HCPL will extend FLDG to the third-party lenders on the digital lending platform and the extent of the same would be a monitorable.

The asset quality profile is moderate with the PAR 0 and PAR 90 at 16.4% and 5.9%, respectively, as on March 31, 2021. The PAR 90 (including write-offs) increased to 9.6% as on September 30, 2021. The company reported its first write-off of Rs. 5.4 crore in FY2021 and it wrote off Rs. 5.8 crore as of H1 FY2022. HCPL, however, also augmented its provision in H1 FY2022 by about Rs. 9.0 crore, taking the total provisions to Rs. 18.2 crore (provisional; 5% of the AUM) by September 2021. Considering the company's evolving product profile and its limited track record of operations, the ability to maintain consistent growth while keeping the credit costs under control would be crucial going forward.

Modest profitability of HCPL – In FY2021, HCPL reported a net profit of Rs. 2.3 crore on a portfolio of Rs. 353 crore (net profit of Rs. 0.8 crore on a portfolio of Rs. 249 crore in FY2020). The RoMA was largely stable and modest in FY2021 and FY2020 at about 0.5-0.6%. Given its nascent stage of operations, the company's operating expenses (as a percentage of average total assets) were elevated at 9.3% in FY2021 (14.5% in FY2020) notwithstanding the improvement. The cost-to-income ratio stood at 86% as of March 2021 (92% as of March 2020). HCPL's performance would be closely linked to the Group's performance considering the various interlinkages with Group entities, especially HTPL.

Sizeable losses reported by Group entities – HTPL, the key Group company, reported a total loss of ~Rs. 2,650 crore on a standalone basis between FY2017 and FY2021. It reported losses of Rs. 1,242 crore (provisional) in FY2021 on a turnover of Rs. 456 crore (provisional) vis-à-vis losses of Rs. 903 crore on a turnover of Rs. 240 crore in FY2020. ICRA also takes notes of the losses in the other Group entities. The Group is taking initiatives to improve its earnings by discontinuing some product lines, phasing out business in some pin codes and reducing the on-field staff force. ICRA expects the group to raise capital in the near term to support business operations and growth.

HCPL's funding profile is commensurate with current level of operations; important to diversify the same considering growth plans – HCPL has scaled up its portfolio over the last two and half years; the growth in the portfolio has been supplemented by debt raised from various lenders. As on October 19, 2021, HCPL had debt outstanding from fourteen lenders including three private banks, one small finance bank and ten NBFCs; borrowings from NBFCs constituted about 67% of the total borrowings of about Rs. 258 crore while borrowings from banks stood at about 33%. Going forward, HCPL would have to steadily diversify its funding profile to support its growth requirements and to secure funding at competitive rates.

Liquidity position: Adequate

The company had cash, liquid investments and fixed deposits of about Rs. 66 crore as on June 30, 2021. Furthermore, it had Rs. 45 crore of undrawn sanctions as on June 30, 2021. The debt obligations from July 2021 to December 2021 are Rs. 99.8 crore. The short-term nature of the loan products provides comfort from a liquidity perspective. About 95% of the collections are received in the form of prepayments for exposures, which accounted for 52% of HCPL's portfolio as of September 2021, and ~33% of the collections are received in the form of prepayments for the Pratishta loan product, which accounted for 42% of the portfolio as of September 2021.

Rating sensitivities

Positive factors – ICRA could upgrade HCPL's ratings if the Group-level losses moderate on a sustained basis. The profitable and good quality scale-up of HCPL would also positively impact the ratings.

Negative factors – Pressure on HCPL's ratings could arise if there is a material deterioration in its asset quality, thereby impacting the capital structure. Continued high losses at the Group level would 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	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 and it offers unsecured MSME loans. The company commenced business from December 12, 2018 and had a gross portfolio of Rs. 390 crore as on September 30, 2021. HCPL is held by HTPL (65%) and Unison Private Limited (35%), a Singapore-based company and a 100% subsidiary of TIPL. Total equity capital of Rs. 242 crore has been infused into HCPL till date from Group companies (HTPL & Unison Private Limited).

Key financial indicators (audited)

HiveLoop Capital Private Limited	FY2019	FY2020	FY2021
Total income (Rs. crore)	0.5	41.1	66.8
Profit after tax (Rs. crore)	(2.5)	0.8	2.3
Net worth (Rs. crore)	34.5	192.4	242.7
Loan book (Rs. crore)	12.4	249.3	353.1
Total assets (Rs. crore)	40.0	326.9	492.1
Return on assets (%)	-11.9%	0.5%	0.6%
Return on net worth (%)	-13.7%	0.7%	1.0%
Gearing (times)	0.1	0.7	1.0
Gross NPA (%; on 180+dpd basis)	-	0.96%	2.73%
Net NPA (%; on 180+dpd basis)	-	0.87%	0.80%
CRAR (%)	116.5%	72.7%	57.2%

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information

HCPL has informed ICRA via the No Default Statement submitted by the company about the delay in the payment of interest of Rs. 0.51 crore, Rs. 0.12 crore and Rs. 0.05 crore on November 03, 2020, October 23, 2020 and April 01, 2021, respectively, on the term loans and working capital facility availed by the company. ICRA notes that the delays were of operational nature and the payments were subsequently credited to the beneficiary accounts on November 05, 2020, October 26, 2020 and April 07, 2021, respectively. ICRA also notes that HCPL had adequate liquidity on the respective payment dates.

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
						October 27, 2021	NA		
1	Bank Facilities	Long Term	118.02	-	[ICRA]BBB-; (Stable)	NA	NA	NA	NA
2	Bank Facilities	Short Term	381.98	-	[ICRA]A3	NA	NA	NA	NA

Complexity level of the rated instrument

Instrument	Complexity Indicator
Bank Facilities	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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term - Bank Facilities	Oct 2019 to Aug 2021	13.25% to 16.50%	Oct 2021 to Jun 2023	52.60	[ICRA]BBB-(Stable)
NA	Long Term - Bank Facilities (unallocated)	NA	NA	NA	65.42	[ICRA]BBB-(Stable)
NA	Short Term - Bank Facilities	Sep 2020 to Aug 2021	10.50% to 15.00%	Sep 2021 to Jul 2022	166.56	[ICRA]A3
NA	Short Term - Bank Facilities (unallocated)	NA	NA	NA	215.42	[ICRA]A3

Source: Company; position as on August 31, 2021

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	NA	NA

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