

October 31, 2022

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	118.02	103.00	[ICRA]BBB- (Stable); reaffirmed
Short term-Fund based	381.98	397.00	[ICRA]A3; reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the ratings takes into consideration ICRA's expectation that the udaan Group will continue raising adequate capital in a timely manner to scale up the business as well as to continue funding the losses at the Group level until it reaches the desired operational efficiency. Hiveloop Technology Private Limited (HTPL), the key Group company, reported a total loss of Rs. 4,404.83 crore on a standalone basis between FY2017 and FY2022. It reported a loss of Rs. 1,757 crore in FY2022 on a turnover of Rs. 607 crore vis-à-vis a loss of Rs. 1,237 crore on a turnover of Rs. 456 crore in FY2021. 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. Its ability to achieve the same in the near term would be key from a credit perspective.

The ratings continue to take into consideration the long-standing experience of the udaan Group's founders and Hiveloop Capital Private Limited's (HCPL) senior management team. The 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. HTPL had a 65% stake in HCPL as of June 2022 and it houses the e-commerce platform of the Group. The logistics business (operating under the brand name 'udaan Express'), the payments services and the digital lending platform are housed under separate entities of the 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 HCPL's limited track record of operations and its moderate asset quality. The company largely extends short-term working capital finance to small businesses and micro, small and medium enterprises (MSMEs), with a portfolio outstanding (after write-offs) of Rs. 310 crore as of June 2022. The asset quality is moderate with the portfolio at risk (PAR) 0 and PAR 90 at 13.2% and 5.3%, respectively, as on June 30, 2022. ICRA notes that HCPL's funding profile is commensurate with the current scale of 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 monitorable.

Key rating drivers and their description

Credit strengths

Experienced founders and management team – HCPL is the non-banking financial company (NBFC) arm of the udaan Group, which was co-founded by Mr. Amod Malaviya, Mr. Sujeet Kumar and Mr. Vaibhav Gupta. Prior to establishing the 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 President, Business Finance and Analytics at Flipkart and is currently the Group Chief Executive Officer of udaan group. 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 – The udaan Group comprises the flagship 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 pan-India and enables purchases and sales across more than 15 product categories. There are over 2.6 million registered users and 25,000-30,000 sellers on the B2B e-commerce platform covering more than 12,000 pin codes. The Group also offers payment services to facilitate secured online transactions as well as warehousing and logistics services 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 interlinkage between HTPL and HCPL; HTPL currently holds a 65% stake 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 other third-party lenders to the buyers/sellers on the udaan e-commerce platform. About 51% of HCPL's portfolio, as of June 30, 2022, constituted working capital loans extended for transactions undertaken on the e-commerce platform. Additionally, 49% of HCPL's gross portfolio, as on June 30, 2022, comprised loans to MSMEs and small businesses for their transactions outside the e-commerce platform (i.e. Pratishtha loan product). In some cases, such loans are backed by the anchor companies on the digital lending platform. Overall, ICRA notes that HCPL's operations derive synergies from various udaan Group entities and thus its growth is dependent on the overall Group's performance.

Group's track record in raising capital; adequate capitalisation profile for HCPL – HCPL's gearing stood at 0.77x as on June 30, 2022, improving from 0.94x as on March 31, 2022 and 0.95x as on March 31, 2021. The company's capital structure has been supported by the infusion of Rs. 242 crore of capital between FY2018 and FY2022. At the Group level, equity capital is raised by TIPL and down-streamed to the Group companies as per their requirements. TIPL raised total equity capital of USD 1.15 billion and USD 225 million in convertible notes till FY2022 through multiple series for its operations in India. It does not have any other business interest apart from the udaan Group. However, considering the sizeable losses at the Group level, timely and regular capital infusions are critical going forward.

On a standalone basis, HCPL's net portfolio stood at Rs. 310 crore as of June 30, 2022 and is expected to increase at a compound annual growth rate (CAGR) of ~20% 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; sizeable losses reported by Group entities – 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. However, over the last three years, HCPL has diversified and now also offers unsecured working capital loans to borrowers outside the e-commerce platform. Such loans contributed 49% to the standalone gross portfolio as of June 30, 2022. HCPL's own portfolio stood at about Rs. 310 crore as on June 30, 2022 (Rs. 354 crore as on March 31, 2022, 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. 494 crore as of June 2022 (Rs. 541 crore as of March 2022 and Rs. 435 crore as of March 2021).

HTPL, the key Group company, reported a total loss of Rs. 4,404.83 crore on a standalone basis between FY2017 and FY2022. It reported a loss of Rs. 1,757 crore in FY2022 on a turnover of Rs. 607 crore vis-à-vis a loss of Rs. 1,237 crore on a turnover of

Rs. 456 crore in FY2021. 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.

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 13.2% and 5.3%, respectively, as on June 30, 2022. Historically, HTPL has compensated for the credit losses incurred on the lending carried out through the udaan platform. This had enabled the company to keep the credit losses restricted previously. However, with the share of lending in the off-udaan segment increasing in FY2022, the credit costs also increased to 3% in FY2022 from 2% in FY2021. Going forward, considering the company’s evolving product profile as well as the changing regulatory landscape for digital lenders, the ability to maintain consistent growth while keeping the credit costs under control would be key from a credit perspective.

In FY2022, HCPL reported a net profit of Rs. 1.3 crore on a portfolio of Rs. 354 crore (net profit of Rs. 2.3 crore on a portfolio of Rs. 353 crore in FY2021). The return on managed assets (RoMA) was largely stable and modest in FY2022 and FY2021 at 0.3-0.6%. HCPL was able to bring down its operating cost, as a percentage of average managed assets (AMA), to 5.0% in FY2022 from 7.9% in FY2021. The decline in operating expenses was offset by the higher credit costs in FY2022, resulting in a moderate RoMA. HCPL’s performance would be closely linked to the Group’s performance, considering the various interlinkages with Group entities, especially HTPL.

HCPL’s funding profile commensurate with current level of operations; important to diversify the same, considering growth plans – As on June 30, 2022, HCPL had debt outstanding from ten lenders, including three private banks and seven NBFCs; borrowings from NBFCs constituted about 52% of the total borrowings of about Rs. 198 crore while borrowings from banks stood at about 48%. 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 Rs. 77.60 crore as on August 31, 2022. The debt obligations from September 2022 to October 2022 stood at Rs. 49.5 crore. The available on-book liquidity, as on August 31, 2022, is sufficient to fund the debt obligations for the next two months, i.e. from September 2022 to October 2022, while the company continues to make monthly collections.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if HTPL, HCPL’s parent, is able to moderate its losses on a sustained basis. Further, a sustained improvement in the profitability and good quality scale-up of HCPL would 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. It offers unsecured MSME loans. The company commenced business from December 12, 2018 and had a portfolio of Rs. 310 crore as on June 30, 2022. HCPL is held by HTPL (65%) and Unison Private Limited (35%), a Singapore-based company, and 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 (audited)

HCPL	FY2020	FY2021	FY2022
Total income	41.1	66.8	73.3
Profit after tax	0.8	2.3	1.3
Net worth	192.4	242.7	243.9
Loan book	249.3	353.1	354.1
Total assets	326.9	492.1	499.8
Return on assets	0.5%	0.6%	0.3%
Return on net worth	0.7%	1.0%	0.5%
Gearing (times)	0.66	0.95	0.94
Gross NPA	0.96%	2.53%	2.32%
Net NPA	0.87%	0.81%	0.36%
CRAR	78%	62.13%	49.42%

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	Type	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date and Rating in FY2022	Date and Rating in FY2021	Date and Rating in FY2020
				Oct 31, 2022	Oct 27, 2021	NA	NA
1 Long term – Fund based	Long term	103	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	NA	NA
2 Short term – Fund based	Short term	397	--	[ICRA]A3	[ICRA]A3	NA	NA

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: www.icra.in

Annexure I: Instrument details

ISIN/Lender	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund based	Aug-27-21	13.25%	Nov-30-22	3.00	[ICRA]BBB- (Stable)
NA	Short term – Fund based	Oct-21-21	12.50%	Nov-03-22	7.02	[ICRA]A3
NA	Short term – Fund based	Oct-14-21	13.25%	Nov-10-22	2.75	[ICRA]A3
NA	Short term – Fund based	Sep-29-22	12.85%	Oct-03-23	30.00	[ICRA]A3
NA	Short term – Fund based	Sep-28-22	13.50%	Oct-10-23	10.00	[ICRA]A3
NA	Short term – Fund based	Sep-19-22	11.00%	Sep-23-23	15.00	[ICRA]A3
NA	Short term – Fund based	Jul-07-22	11.50%	Jul-31-22	50.00	[ICRA]A3
NA	Short term – Fund based	Jun-14-22	11.25%	May-23-22	25.00	[ICRA]A3
NA	Short term – Fund based	Jun-14-22	10.75%	Nov-07-22	25.00	[ICRA]A3
NA	Short term – Fund based	Jul-27-21	12.80%	Sep-24-22	40.00	[ICRA]A3
NA	Long term – Fund based (unallocated)	NA	NA	NA	100.00	[ICRA]BBB- (Stable)
NA	Short term – Fund based (unallocated)	NA	NA	NA	192.23	[ICRA]A3

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	NA	NA

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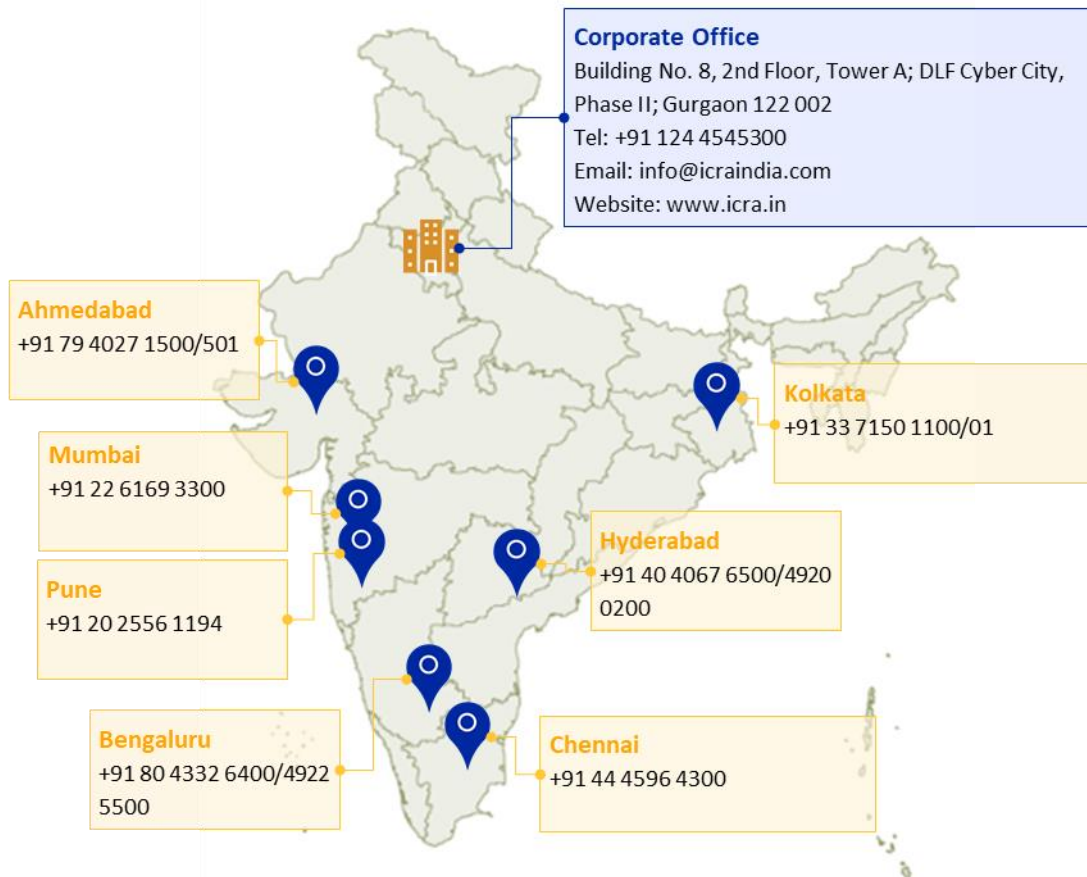
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