

## CapFloat Financial Services Private Limited

September 18, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Unallocated Facilities	225.00	225.00	[ICRA]BBB (Stable) / [ICRA]A3+ / Ratings outstanding
Long term - Fund based facilities	65.00	65.00	[ICRA]BBB (Stable) / Rating outstanding
Short term - Fund based facilities	10.00	10.00	[ICRA]A3+ / Rating outstanding
Unsecured Redeemable Non-Convertible Debenture Programme	16.00	16.00	[ICRA]BBB (Stable) / Rating outstanding
Secured Redeemable Non-Convertible Debenture Programme	17.00	17.00	[ICRA]BBB (Stable) / Rating outstanding
Non-convertible Debenture	-	165.00	[ICRA]BBB (Stable) / Rating assigned
<b>Total</b>	<b>333.00</b>	<b>498.00</b>	

### Rating action

ICRA has assigned the long-term rating of [ICRA]BBB (pronounced ICRA triple B) on the Rs.165.00 crore non-convertible debenture programme of CapFloat Financial Services Private Limited (CapFloat)<sup>1</sup>. The outlook on the long-term rating is Stable.

ICRA has ratings of [ICRA]BBB (pronounced ICRA triple B) and [ICRA]A3+ (pronounced ICRA A three plus) outstanding on the Rs.225.00 unallocated facilities, rating of [ICRA]BBB (pronounced ICRA triple B) outstanding on the Rs.65.00 crore fund based facilities, the Rs.16.00 crore Unsecured Redeemable Non-Convertible Debenture (NCD) Programme and the Rs.17.00 crore Secured Redeemable Non-Convertible Debenture Programme of the company. ICRA also has short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) on the Rs.10.00 crore fund based facilities of the company. The outlook on the long-term rating is Stable.

### Rationale

The assigned rating takes into account CapFloat's steady business growth, comfortable capitalization levels driven by regular equity infusion and the company's strong investor profile. During Q1 FY2019, CapFloat witnessed equity infusion of USD 22 million (~Rs.140 crore) from Amazon India which has aided the company in maintaining low gearing of 1.1x and capital adequacy ratio (CAR) of 45.8% as on June 30, 2018 despite continued net losses. The company's gearing and CAR stood at 1.4x and 45.8% respectively as on March 31, 2018. The ratings continue to factor CapFloat's strong management team, information technology systems and processes and its scalable business model offering potential for improving efficiencies. The company has outlined a steep compounded annual growth of 80-85% over the next five years which would warrant regular equity infusion. ICRA however draws comfort from the company's demonstrated track record of raising equity during the past few years.

The ratings also take into account CapFloat's limited track record of operations, weak profitability with net losses and high credit costs during FY2018 and Q1 FY2019 (as per unaudited results), risks associated with moderate borrower profile and the business model which is relatively new in Indian markets. While the recent regulatory developments in

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

the peer-to-peer (P2P) lending space offers better clarity, ICRA would continue to monitor Reserve Bank of India's stand on the future of co-lending platforms which can define the scope of operations undertaken by the company. Going forward, CapFloat's ability to maintain good asset quality, capitalization, improve its earnings profile and funding diversity while growing the portfolio at envisaged pace would be key monitorables from rating perspective.

## Outlook: Stable

ICRA believes that the recent capital infusion into CapFloat supports its envisioned growth while maintaining a comfortable capital structure. The outlook may be revised to 'Positive' if CapFloat is able to maintain or improve its asset quality, capitalization and profitability metrics as portfolio expands, while also diversifying its funding profile. The outlook may be revised to 'Negative' if the company reports a material deterioration in asset quality and earnings or in the event of a weakened capitalisation profile.

## Key rating drivers

### Credit strengths

**Strong and qualified senior management team:** The Company's senior management team is strong with a blend of personnel having a cumulative experience of over 100 years in technology and financial industry. The management team consists of professionals with prior careers in blue-chip companies and holding advanced degrees from leading universities such as Stanford, Princeton, London School of Economics and Indian Institute of Technology. The company also has a strong Board consisting of eight directors with two founder members and four representatives from investors providing guidance to management.

**Demonstrated ability to raise capital:** CapFloat has demonstrated a track record of raising capital over the last three years which has supported its growth and capital structure. During FY2018, the company raised sizeable equity of Rs.293.00 crore under Series-C round of equity and subsequently an additional USD 22 million (about Rs.140 crore) in Q1 FY2019 which in ICRA's opinion is expected to aid CapFloat in meeting its growth requirements over the next 12-15 months while maintaining the gearing below its cap of 3.5x. Nevertheless, given the steep envisaged growth by the company, ICRA expects the company to require capital infusion regularly going forward.

**Strong systems and processes:** The company has developed an in-house technology platform which covers end-to-end workflow management, loan engine, risk management system, lead management, lender management (for co-lending) and real-time analytics. It drives several aspects of business such as automatic credit appraisal, track exceptions and escalations, monitoring risk, automatic early warning signals, lead generation, customer rating, accounts management and industry/geography insights to aid sales strategy. In ICRA's opinion, the company's strong systems enable it to innovate and achieve a short turnaround time for processing loans.

**Scalable business model:** CapFloat offers wide range of loan products such as unsecured business loans, merchant cash advance, pay later loans through a combination of co-lending and its own exposure. The company's strong DSA network, cross-selling opportunities on its lending platform, high technology intensity in the business and the management's stated intent to focus on fee-based model leveraging the capital of banks and financial institutions are expected to aid in healthy business scale up while limiting its on-book exposure.

## Credit weaknesses

**Limited track record of operations:** Having been incorporated in 2013, the growth in CapFloat's loan book has picked up over the past two years. Short track record would put limitation on the availability of historic data for the company to calibrate risk models. Further, given the steep portfolio growth witnessed over the last three to four quarters, the company's portfolio seasoning remains limited.

**Business model untested in India:** The company's operational model with high reliance on technology and algorithm-based screening and credit appraisal remains largely untested in the Indian market given their recent emergence over the last 3-4 years. The company's ability to achieve good asset quality and enhance operating efficiencies with high usage of technology remains to be seen. However, in addition to the algorithm-based scoring, the company also employs traditional underwriting practices like Personal Discussion (PD) checks and reported income analysis, for higher ticket size loans which provides comfort to some extent.

**Unsecured nature of lending to borrowers who are vulnerable to economic shocks:** CapFloat's borrower profile comprises small businesses and individuals with moderate credit profile. Unsecured lending to such borrower profile might expose the company to asset quality issues in the long run; nevertheless, the company has built strong mechanisms to mitigate the risk of unsecured lending.

**Weak profitability led by increasing credit costs:** Given the nascent stage of its operations and moderate scale, the company continues to report net losses. In Q1FY2019, CapFloat reported a net loss of Rs.22.6 crore (unaudited results), driven primarily by provision expenses of Rs.16.9 crore. For FY2018, CapFloat's net loss stood at Rs.92.1 crore as against net loss of Rs.63.5 crore in FY2017. Going forward, scale up in portfolio, improvement in operating efficiencies and control on credit costs would be crucial from profitability perspective.

**Ability to contain asset quality with a rapid loan book expansion:** Cap float reported a gross NPA of Rs.38.4 crore as on June 30, 2018 and write-off of Rs.5.8 crore in Q1 FY2019 against on-book portfolio of Rs.851.8 crore and off-book portfolio of Rs.390.4 crore as on June 30, 2018. ICRA notes the increasing credit costs associated with the business model. The company has strong systems and processes in place using advanced data analytics aimed at predictive analysis to contain delinquencies, providing some comfort. However, the company's ability to maintain good asset quality with envisaged portfolio growth (~80-85% CAGR projections over next five years) would be critical from the credit rating perspective

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

## About the company:

Capital Float (CF) is the trade name of CapFloat Financial Services Private Limited (Zen Lefin Pvt. Ltd.) which is an NBFC lending primarily to SMEs. The company was started in 2013 by co-founders Mr. Sashank Rishyasringa and Mr. Gaurav Hinduja and has raised funds from ASPADA, Sequoia, SAIF partners, Amazon and Creation Investments. CF is a part of the evolving fin-tech industry and targets borrower segments which are difficult to access by traditional banks. The use of technology helps to reduce the turnaround time as well as underwrite the borrowers based on non-traditional data points from online space like social media, e-commerce sites etc. The company reported a net loss of Rs.92.1 crore for FY2018 on a total managed asset base of Rs.1,106.3 crore as on March 31, 2018. The reported networth of the company stood at Rs.387.7 crore as on March 31, 2018 after the company raised Series C funding of Rs.293.0 crore in August 2017.

## Key Financial Indicators (Audited)

	FY 2017	FY 2018
Total Income (Rs. Crore)	53.8	134.7
Profit after Tax (Rs. Crore)	-63.5	-92.1
Net worth (Rs. Crore)	183.2	387.7
Total Managed Portfolio (Rs. Crore)	545.0	1,106.3
Total Managed Assets (Rs. Crore)	664.2	1,401.0
Return on Managed Assets (%)	-15.9%	-8.9%
Return on Net worth (%)	-49.6%	-32.3%
Gearing (times)	1.6	1.4
Net NPA (%)	0.2%	0.6%
Capital Adequacy Ratio (%)	37.5%	45.8%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

	Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	FY2019	FY2018	FY2017		FY2016
					Sep 2018	Feb 2018	Jan 2017	July 2016	-
1	Unallocated facilities	LT/ST	225.0	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-
2	Fund based facilities	LT	65.0	38.8	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-
3	Fund based facilities	ST	10.0	-	[ICRA]A3+	[ICRA]A3+	-	-	-
4	Unsecured NCD	LT	16.0	16.0	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
5	Secured NCD	LT	17.0	17.0	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
6	NCD	LT	165.0	-	[ICRA]BBB (Stable)	-	-	-	-

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long term - Fund based facilities	27-10-16 06-03-17	11.80% 11.15%	31-10-18 31-03-19	20.00 30.00	[ICRA]BBB (Stable)
-	Long term - Fund based facilities	28-11-16 20-07-17	12.75% 11.75%	31-12-18 31-07-19	5.00 10.00	[ICRA]BBB (Stable)
-	Short term - Fund based facilities	25-10-16	12.50%	05-10-17	10.00	[ICRA]A3+
-	Unallocated	-	-	-	225.00	[ICRA]BBB (Stable) / [ICRA]A3+
-	Unsecured NCD	30-12-2016	13.85%	30-12-2018	16.00	[ICRA]BBB (Stable)
INE491W07030	Secured NCD	29-12-2016	13.25%	23-06-2022	17.00	[ICRA]BBB (Stable)
Yet to be placed	NCD	-	-	-	165.00	[ICRA]BBB (Stable)

Source: CapFloat

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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.

For more information, visit [www.icra.in](http://www.icra.in)

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