August 23, 2021

Lentra AI Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Compulsorily Convertible Debenture	7.00	7.00	[ICRA]BB- (Stable) Reaffirmed
Total	**7.00**	**7.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the proven expertise and credibility of Lentra AI Private Limited's (LAPL) promoters in the Information Technology (IT) services sector and its well-established relations with reputed customers in the financial services domain. The company raised ~Rs. 84.0 crore in FY2020 through ~Rs. 77.0-crore compulsory convertible preference share (CCPS) and ~Rs. 7.0 crore through the compulsory convertible debenture (CCD) route. This investor funding provided LAPL with the requisite growth capital for scaling up its business.

The rating, however, is constrained by LAPL's small scale of operations at present with negative free cash flows and risks related to successful scaling up of operations as envisaged over the near to medium term. Its operations are exposed to high client concentration risk with the top five clients driving a large portion of its revenues, though the same is mitigated to some extent due to repeat orders. Moreover, the company faces challenges with respect to high attrition rate and high dependence on a single end-user industry, i.e., financial services, which makes its business operations vulnerable to industry-specific risks. The rating also factors in the material liability, if any, which may arise from the buy-back option available to its private equity investors, or the liability arising out of breach of any agreed contract that may impact LAPL's credit profile adversely.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that LAPL will continue to benefit from the expertise and credibility of its promoters, along with its established relationships with reputed clients.

Key rating drivers and their description

Credit strengths

Proven expertise of promoters in IT services sector – LAPL's key promoter, Mr. D. Venkatesh, has been in the IT sevices business for over two decades. The proven expertise of the managerial team helps the company in retaining its existing clients and in acquiring new ones.

Well-established relationships with reputed customers from financial services sector – LAPL enjoys well-established relations with reputed customers from the financial services domain. Several well-known banks and non-banking financial companies (NBFCs) dominate its clientele.

Comfortable capital structure led by investor funding – The company has raised ~Rs. 84 crore in FY2020 through ~Rs. 77-crore CCPS and ~Rs. 7.0 crore through CCD route. This investor funding has led to a comfortable capital structure and has provided the requisite growth capital for scaling up the business.

Credit challenges

Small scale of operations limiting benefits from economies of scale – The company witnessed a considerable revenue growth of ~132% in FY2020, followed by a top-line growth of ~60% in FY2021. However, the scale of operations continued to remain modest as indicated by an operating income (OI) of Rs. 44.7 crore in FY2021, limiting the benefits arising from economies of scale.

Exposed to high client concentration risk – LAPL faces high client concentration risk with its top five clients contributing ~60-70% to its total revenue. However, its reputed clientele providing repeat orders offers comfort to an extent.

Exposure to industry-specific risks due to high dependence on single end-user industry – LAPL currently caters to a single end-user industry, financial services (lenders), which exposes it to any industry-specific risks.

High attrition rate – The company faces issues related to attrition rate, which stood high at ~26% in FY2021. The retention and development of talent, on a sustained basis, remains a challenge.

Liquidity position: Adequate

The company's term loans stood at ~Rs. 15.7 crore as on March 31, 2021, with an additional loan of ~Rs. 8.5 crore availed in Q1 FY2022. The term loans are expected to have an annual repayment of ~Rs. 8.4 crore in FY2022, ~Rs. 6.0 crore in FY2023 and ~Rs. 5.1 crore in FY2024. The term loans are secured against FDs. Further, the CCDs are compulsorily convertible to equity shares by October 2029 and carries a marginal coupon rate of 0.001% on an annual basis. LAPL has recently been sanctioned a working capital bank facility of Rs. 11.5 crore, which remains unutilised. It reported cash and bank balance of ~Rs. 32.75 crore as on June 30, 2021 including encumbered cash of ~Rs. 17.5 crore as on June 30, 2021, indicating an **adequate** liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade LAPL's rating if the company demonstrates significant ramp-up in scale and turnaround of its operations.

Negative factors – Negative pressure on LAPL's rating could arise if the company incurs higher-than-anticipated losses or exhibits slowdown in ramping up of operations. The rating could also be downgraded in case any stretch in receivables days, impacts its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology – Information Technology (Services)
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

Incorporated on July 30, 2018, LAPL is involved in providing IT solutions to corporates from the finance domain. It is essentially a cloud-based software product company operating on a Software as a Service (SaaS) model, where its applications empower its clients to lend effectively and easily. The company acquired the business from Softcell Technologies Limited (Softcell) by way of an NCLT de-merger process on August 19, 2019, following the NCLT order.

Key financial indicators (Audited)

	FY2020	FY2021*
Operating Income (Rs. crore)	27.9	44.7
PAT (Rs. crore)	-2.6	-12.2
OPBDIT/OI (%)	23.3%	12.8%
PAT/OI (%)	-9.2%	-27.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.6
Total Debt/OPBDIT (times)	3.6	4.0
Interest Coverage (times)	5.3	4.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
**Profitability excluding ESOP Expenses and Founder Incentive Stock Option*

Source: ICRA Research, Company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2022)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as of March 31, 2021 (Rs. crore)</th><th>Date & Rating in</th><th>Date & Rating in FY2021</th><th>Date & Rating in FY2020</th><th>Date & Rating in FY2019</th></tr>
<tr><th>August 23, 2021</th><th>August 05, 2020</th><th>November 21, 2019</th><th>-</th></tr>
<tr><td>1</td><td>Compulsorily Convertible Debentures</td><td>Long-Term</td><td>7.00</td><td>7.00</td><td>[ICRA]BB- (Stable)</td><td>[ICRA]BB- (Stable); Provisional Rating Confirmed as Final</td><td>[ICRA]BB- (Stable); Provisional</td><td>-</td></tr>
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term, Compulsorily Convertible Debentures	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, is available on ICRA's website: 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
NA	Compulsorily Convertible Debentures	Nov-2019	0.001%	Oct-2029*	7.00	[ICRA]BB-(Stable)

Source: Lentra AI Private Limited

#ISIN number not applicable

**CCDs are compulsorily convertible into equity shares by October 2029*

Annexure-2: List of entities considered for consolidated analysis: NA

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