Quadrillion Finance Private Limited

February 22, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	200.00 (Enhanced from 100.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**200.00 (Rs. Two Hundred Crore Only)**		
Non-Convertible Debentures	100.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Market Linked Debentures (Principal Protected)	30.00	CARE PP-MLD BBB+; Stable (Principal Protected-Market Linked Debentures Triple B Plus; Outlook: Stable)	Assigned
Total Long-Term Instruments	**130.00 (Rs. One Hundred Thirty Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the debt instruments/bank facilities of Quadrillion Finance Private Limited (QFPL) takes into consideration the recent capital mobilisation of Rs. 1,015 crore by the group during Dec 2021 – Jan 2022 resulting in strengthening of capital base of the parent Garagepreneurs Internet Pvt Ltd (GIPL) substantially to Rs. 1,119 crore as on January 2021 as against Rs. 64 crore as on March 31, 2021. GIPL has also down streamed part of the above capital to QFPL resulting in increase in networth of QFPL to Rs. 364.5 crore as on Dec 31, 2021 as compared to Rs. 44 crore as on March 31, 2021 with further capital expected to be down-streamed in the near term to QFPL. The rating revision also considers the increase in scale of operations with Assets Under Management (AUM) of Rs. 1,531.4 crore as on December 31, 2021 (FYE21: Rs. 297.78 crore) with a significant increase in new customers acquired in the last few months. CARE expects the group to maintain overall gearing of 2.5 times at GIPL (consolidated level) and 3.5 times at QFPL level. The rating factors the business potential of QFPL's highly scalable business model considering its focus on positioning itself as a payments-based credit provider with 73% of its AUM comprising lending through its flagship product, slice Card. Although QFPL has been able to keep its asset quality metrics under check with GNPA (90+dpd) of 0.47% as at the end of December 2021 supported by a strong collection mechanism, as the company plans to expand its business scale with an acceleration in disbursements, the ability to maintain asset quality remains key monitorable.

The ratings remain constrained by its moderate earnings profile mainly at the parent level on account of high marketing expenses required for expansion of its business. In the near term, such high marketing expenses to support scaling of business is expected to result in continuation of losses at GIPL level. However, strong networth base adds comfort to its credit profile. Also, the ratings consider QFPL's limited operational history as a startup business and the evolving nature of the industry with the robustness of the credit engine yet to be established over various economic cycles. CARE Ratings observes that while cost of funding has exhibited some improvement over the months, same continues to remain relatively high. Also, the resource profile remains relatively concentrated with funding from NBFCs comprising a major portion of the borrowings profile.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained improvement in consolidated profitability with Return on Total Assets (ROTA) of at least 3%
- Ability to sustain the asset quality metrics with GNPA of less than 2% on sustained basis
- Improvement in liability profile with reduction in cost of funds

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Expected/Visible signs of stress in asset quality with significant/consistent deterioration in metrics including GNPA, write-offs and collection efficiencies
- Overall gearing of more than 3.5x at QFPL and 2.5x at GIPL (consolidated) level
- Higher share of short-term funding in the overall borrowing.

Detailed description of the key rating drivers
Key Rating Strengths

Significant Capital Infusion from Marquee Investors: GIPL, the technology parent which holds a 100% stake in QFPL received Rs. 895 crore in December 2021 from Tiger Global Management LLC and Insight Venture Partners in the form of CCPS. Out of this round, around Rs. 200 crore was down-streamed into QFPL during December 2021. GIPL received further Rs. 119 crore in January 2022 from Lenarco Limited and Moore Strategic Ventures LLC. The net worth of QFPL stood at around Rs. 364 crore as on December 2021 while the consolidated net worth of GIPL stood at Rs. 999.83 crore as on December 2021. The aggregate value of the total capital infusions since inception stands at Rs. 1,259.9 crore. Overall debt equity stood at 3.18x for QFPL and 2.38x for GIPL as on September 30, 2021. CARE expects the leverage to remain at less than 2.5 times at the consolidated level and less than 3.5 times at QFPL.

A healthy capital base acts as a cushion for a startup entity and also enables them to absorb the elevated operating costs in its early stages as they increase in size and scale or any other unexpected losses which may arise due to an evolving business scale. CARE Ratings estimates that the current capital levels shall act as an adequate cushion and support the growth of its loan portfolio in the medium term.

Growth Potential Led by Technology-led Assessment Model and Positioning in the Card Space: QFPL has a highly scalable business model, enabled by a digital lending process through its mobile application slice, with the entire credit risk underwriting process – origination, risk assessment and disbursement performed digitally. Minimal manual intervention provides the company with the ability to grow its loan portfolio at a faster pace with asset quality metrics being monitored by the algorithms.

QFPL's product basket includes credit through slice card, Bank Transfer or Paytm and electronic gift voucher - all covered within an overall credit limit, assigned for a user. After its introduction in May 2019, Slice card has now become the flagship product of the company. The card product allows the company to compete with banks with substantial competitive advantages in the form of quicker on-boarding, ease of use, user engagement and offers and rewards in the nature of instant cashbacks. The company's customer profile is composed of digitally-savvy younger demographics, who can utilize the credit limits almost instantly for any transaction – POS (Point of sale) or online purchase, not just as a credit, but also as a payment tool. Consequently, technology provides a competitive edge over traditional banks, considering the process – from application to approval taking around 2-3 hours or even lesser in case of premium salaried users.

CARE Ratings notes that while technology has demonstrated its capacity for easy growth, the ability of the machine learning algorithms to keep a check on quality of the loans being sourced is still evolving and remains to be proven. Also, while the business model is highly scalable, sustenance of the current user base as well as further improvement in the market share amidst high competition among public and private sector banks is yet to be seen.

Asset Quality Better than Peers Supported by Robust Collections: Since FY21, QFPL has adopted a policy of Non-Performing Assets (NPA) recognition based on 90+ DPD with 75% provision coverage ratio (PCR) for on-book bad loans and 100% for off-book bad loans, and with write-offs at 180+ DPD. The Gross NPA ratio stood at 0.47% as at December 2021 as compared to 0.80% as at September 30, 2021 and 1.01% as at March 31, 2021. The Adjusted GNPA (including write-offs) stands at 1.82% as on December 2021 as compared to 4.29% as at March 31,2021. Considering the shorter tenure nature of the advances resulting in its faster amortization, CARE Ratings has also considered cumulative write-offs plus 90+ DPD loans as a percentage of cumulative disbursements for assessing its asset quality, which in case of QFPL stood as low as 0.51% as on December 31, 2021 as compared to 0.79% as on March 31, 2021 & 0.72% as on September 30, 2021. Monthly overall collection efficiency stood at 98.2% as on December 2021 and remained unaffected despite the two waves of Covid-19, on the back of a strong collection team and automated processes.

CARE Ratings observes that majority of customers of QFPL belong to salaried segment, as it expands its user base in the slice card product. This is likely to result in increasing ticket sizes. Going forward, asset quality metrics will remain key monitorable.

Key Rating Weaknesses

Limited Operational History: QFPL has an operational track record of less than 5 years, while the parent GIPL has been operating the technology-led model for credit assessment of unsecured retail credit for other NBFC partners through the FLDG model since 2016. The AUM grew significantly around 5 times during 9 months period ended December 2021 with AUM of Rs. 1,531.38 crore as on December 31, 2021 as compared to Rs. 297.78 crore in March 2021. Although owing to its short-term nature, the portfolio has churned multiple times, the ability to maintain the quality of credit underwriting over a longer tenure is yet to be established as a result of limited track record. CARE Ratings observes that credit risk models based on data analytics and machine learning will continuously evolve both with time as well as with growth in portfolio. Subsequently, the robustness of these models will only be ascertained over a period of time.

Yet to Report Profitability at Consolidated Level Led by High Marketing Costs: QFPL reported a net profit of Rs. 8.61 crore for H1FY22 (as per IND AS) as compared to Rs. 0.38 crore for FY21 (I-GAAP). As on 9MFY22, the profit stood at Rs. 17.82 crore. However, the parent company, GIPL has not yet turned profitable on an annual basis and is likely take another 12 to 15 months to break even. During FY21 & H1FY22, GIPL continues to remain in losses. The losses were primarily on account of higher operating expenses (Opex), emanating mainly from marketing and customer acquisition expenses led by significant expansion of its customer base. Opex to Avg. Total Assets stood at 28.45% during H1FY22 as compared to 19.99% during FY21. Going forward, since the group is currently in the growth stage and expects to increase digital marketing in order to increase its customers, profitability at the consolidated level is expected to improve from the end of FY23 onwards.

Concentrated Resource Profile and relatively Higher Cost of Funding: Being in the initial years of its operations, the resource profile of QFPL is concentrated with high dependence on term loans from NBFCs/FIs/AIFs with 72% share in total borrowings, followed by NCD issuances of 22% and CP of 5%. While few banks have started provided funding to QFPL, they remain a recent addition and constitute only 1% of the total borrowing profile as at Dec 31, 2021. While the company has managed to lower its incremental cost of funding by around 150 bps from 15.5% p.a. during FY21 to 14.22% p.a. during 9MFY22, the average cost of funding continues to be high and will be closely monitored.

Liquidity: Adequate

QFPL's asset liability maturity profile reflected cumulative surplus position across all maturity buckets as on December 31, 2021. The company has principal debt repayments of Rs. 959.61 crore up to one year against which the contractual inflows from advances stood at Rs. 1,104.96 crore and cash and bank balances stood at Rs. 0.79 crore as on December 31, 2021. Liquidity remains supported by high collections driven by the short-term nature of loan book (average tenor of around 4 months) and medium-term borrowings of around 12 months.

Analytical approach:

CARE has taken a standalone view for assessing the financial position of QFPL. Additionally, CARE has also factored in financial and technological support from its parent entity, GIPL including usage of the brand "Slice" as well as maintenance of technology platform which forms the base for end-to-end credit process.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Notching by factoring linkages in ratings
Financial ratios – Financial sector
Rating Methodology- Non-Banking Finance Companies
Market Linked Debentures/Notes

About the Company

QFPL is a Bengaluru based NBFC (Non-deposit accepting and non-systemically important), engaged in the business of unsecured retail financing to salaried class and student segment, through the mobile application named 'slice'. Established in Sept 2018, it is a wholly owned subsidiary of GIPLGIPL. GIPL was founded by Mr. Rajan Bajaj in 2015. It initially used to acquire customers and allow its technology platform to be used for disbursements through FLDG arrangement with other partner NBFCs. With incorporation of its own NBFC – QFPL, GIPL provides capital support to the NBFC and major chunk of credit business is carried out through it.

QFPL has a highly scalable business model, enabled by use of automation and deployment of technology for underwriting & risk management. Majority of the limits for the salaried segment are decided by its credit engine, based on predefined criteria. The product profile includes credit through slice card, Bank Transfer or Paytm and electronic gift voucher - all covered within an overall credit limit, assigned for a user. Since it began operations in January 2016, the group has cumulatively disbursed around Rs. 5,454.6 crore till December 2021.

Brief Financials of QFPL

(Rs. crore)

Particulars	FY20- IGAAP (A)	FY21- IGAAP (A)	9MFY22- IND AS (UA)
Total Income	12.01	38.81	131.55
PAT	0.65	0.38	17.82
Interest coverage (times)	1.35	1.05	1.58
Total Assets (tangible)	59.83	191.06	NA
Net NPA (based on 90+dpd) (%)	1.76	0.14	0.10
ROTA (including off book) (%)	0.58	0.15	NA

A: Audited; UA; Unaudited; All ratios are as per CARE's calculations.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	NA	-	-	-	200.00	CARE BBB+; Stable
Non-Convertible Debentures (Proposed)	-	-	-	-	100.00	CARE BBB+; Stable
Debentures-Market Linked Debentures (Proposed)	-	-	-	-	30.00	CARE PP-MLD BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	200.00	CARE BBB+; Stable	1)CARE BBB+; Stable (25-Jan-22) 2)CARE BBB-; Stable (19-Aug-21)	-	-	-
2	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A2	1)CARE A2 (25-Jan-22) 2)CARE A3 (22-Oct-21) 3)CARE A3 (01-Sep-21)	-	-	-
3	Debentures-Non-Convertible Debentures	LT	125.00	CARE BBB+; Stable	1)CARE BBB+; Stable (25-Jan-22) 2)CARE BBB-; Stable (28-Sep-21) 3)CARE BBB-; Stable (01-Sep-21)	-	-	-
4	Debentures-Market Linked Debentures	LT	-	-	1)Withdrawn (25-Jan-22) 2)CARE PP-MLD BBB-; Stable (28-Sep-21)	-	-	-
5	Fund-based - LT-Term Loan	LT	20.00	Provisional CARE BBB+ (CE); Stable	1)Provisional CARE BBB+ (CE); Stable (30-Sep-21)	-	-	-
6	Debentures-Non-Convertible Debentures	LT	100.00	CARE BBB+; Stable				
7	Debentures-Market Linked Debentures	LT	30.00	CARE PP-MLD BBB+; Stable				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Non-Convertible Debentures	Simple
3	Debentures-Market Linked Debentures	Highly Complex

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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