

Rating Rationale

September 22, 2021 | Mumbai

Rupeek Capital Private Limited

'CRISIL BBB-/Stable' assigned to Non Convertible Debentures

Rating Action

Total Bank Loan Facilities Rated	Rs.50 Crore
Long Term Rating	CRISIL BBB-/Stable (Reaffirmed)

Rs.20 Crore Non Convertible Debentures	CRISIL BBB-/Stable (Assigned)
Rs.20 Crore Non Convertible Debentures	CRISIL BBB-/Stable (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB-/Stable**' rating to the Rs.20 crore non-convertible debentures of Rupeek Capital Private Limited (RCPL; part of the Rupeek group) and has reaffirmed the rating on the long-term bank facility and existing non-convertible debentures at '**CRISIL BBB-/Stable**'.

The rating continues to reflect the comfortable capitalisation metrics of the company, as indicated by healthy gearing and regular capital infusion by high-pedigree private equity (PE) investors; and strong asset quality. These strengths are partially offset by nascent stage of operations, significant operational costs leading to weak profitability, and modest resource profile.

As on June 30, 2021, RCPL had modest assets under management (AUM) of Rs 139.7 crore (Rs 94.8 crore as on March 31, 2021) compared to Rs 78 crore as on March 31, 2020. The assets originated by RFPL through its online platform, on behalf of its lending partners, stood at Rs 1,487 crore as on June 30, 2021 compared to Rs 1,453 crore as on March 31, 2021.

Amid Covid-19 and its consequent challenging macro-economic environment, the operations of the group had slowed down from April 2020 but resumed pace gradually from July 2020 onwards. Subsequently, the increase in gold prices and RBI increasing banks' permissible loan-to-value ratio for gold loans to 90% from 75% affected the operations of RCPL. Nevertheless, the company was able to prevent book erosion by building a loan enhancement product. However, fall in gold prices during February 2021 led to fewer disbursements by RCPL. Ability to scale up operations while maintaining credit costs will be a key monitorable.

With significant expenses incurred towards strengthening the senior management team and investment in technology, net losses of the group are estimated at Rs 56.7 crore in the first quarter of fiscal 2022. However, the group has a comfortable liquidity, with cash and equivalents of Rs 235.8 crore as on August 31, 2021. Against this, debt obligation was negligible at Rs 26.5 crore till November 2021.

Analytical Approach

For arriving at its rating, CRISIL Ratings has combined the business and financial risk profiles of RCPL and its parent, RFPL. This is because the two companies, collectively referred to as the Rupeek group, have significant operational, financial and managerial linkages. Additionally, all the equity is raised by the parent, which is then infused into RCPL.

Please refer Annexure – List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths:

* Comfortable capitalisation supported by regular infusion by high-pedigree PE investors

As on June 30, 2021, networth was Rs 407.7 crore and improved significantly from Rs 54 crore as on March 31, 2019. The gearing stood at 0.34 times as on June 30, 2021. Capitalisation is supported by regular infusions by investors. The group has raised capital of Rs 708 crore since its inception from a diverse set of PE firms and angel investors. Of this, Rs 238 crore was raised in March 2021. Some of them are Bertelsmann India, Accel Partners, GGV Capital, Binny Bansal's BTB Ventures, Sequoia Capital, Vostok Emerging Finance, Highline Investments, Tanglin Venture Partners, KB Investments Co,

Kwidnet Holdings and Gemini Investments. Till date, RFPL has infused equity of Rs 55 crore and extended intercorporate loan of Rs 22 crore to RCPL. With the expected ramp-up in business over the medium term, the parent plans to raise about Rs 250 crore in the coming fiscal to support future growth. Ability of the group to raise capital at favourable valuations over the medium term will be a rating sensitivity factor.

*** Strong asset quality**

The 90+ dpd for the group was 3.2% as on June 30, 2021 (0.2% as on March 31, 2021). All the loans originated by the group are first appraised by their loan managers and subsequently by the loan officers of the respective lending partners. This dual appraisal mechanism combining the strict underwriting norms of banks helps avoid misappraisal and ensures a tight control on deviations. RCPL also lends on a standalone basis using the Rupeek platform, but this is a small book as of date. The delinquencies in own portfolio are relatively higher in comparison to the co-lending portfolio. Furthermore, auction with respect to the delinquent accounts has been temporarily pushed back on account of the pandemic. This has resulted in a marginally higher 90+ dpd for RCPL at 1.5% as on June 30, 2021 (1.2% as on March 31, 2021). The company has run down the standalone loans since April 2019 and the portfolio comprised of around 7% of total portfolio of RCPL as of March 2021. Also, gold loans being a secured and resilient asset class, the credit loss on ultimate basis is expected to be negligible considering the requirement to maintain minimum margins at all times. However, as the operations are in nascent stage, ability to maintain and stabilise asset quality while scaling up the loan portfolio remains a key monitorable.

Weakness:

*** Nascent scale of operations**

The Rupeek group commenced operations as a marketplace in fiscal 2016 with co-lending arrangements with its lending partners. It started its operations from Bengaluru and has, over the last three fiscals, diversified to 27 cities. It is currently associated with over 100 branches of Federal Bank, along with the branches of other lending partner-banks. However, Bengaluru continues to be the major contributor as on June 30, 2021. The group aims to make gold loan cheaper for its borrowers by reducing the operational cost associated with the traditional brick-and-mortar model, and deliver superior service through its model of doorstep pickup and release.

RCPL started operations with 100% gold loan lending on its own book in April 2018, but since April 2019, the company has been focusing on scaling up the co-lending business. As on June 30, 2021, its AUM stood at Rs 139.7 crore (Rs 94.8 crore as on March 31, 2021) compared to Rs 78 crore as on March 31, 2020. The assets originated by RFPL through its online platform, on behalf of its lending partners, stood at Rs 1,487 crore as on June 30, 2021 compared to Rs 1,453 crore as on March 31, 2021. Lending partners at 'Rupeek' platform currently comprise Federal Bank, Karur Vysya Bank, ICICI Bank and RCPL. Given that ramping up of operations is linked to signing up with additional lending partners and is subject to competition, the ability to significantly scale up the portfolio will be a key monitorable over the medium term.

*** Weak profitability due to high operating costs**

The group's business model does not require significant recurring operating costs associated with the traditional brick-and-mortar model. However, in order to set up a management team and online field staff and engage engineers to develop its online gold loan platform, the company has incurred significant employee costs. It also incurred substantial marketing expenses in educating customers of its unique business model and penetrating newer cities. Recruitment expenses and staff cost comprised of 59% of the total operating cost for RFPL in fiscal 2021 (61% in fiscal 2020). The group functions through its online platform and has minimal branches in the 27 cities it operates in. It has so far achieved breakeven at the contribution margin level in Bengaluru. Operating cost as a percentage of its average AUM was 26.3% in fiscal 2020 and improved to 22.7% in fiscal 2021 with the growth in AUM, but remains considerably high. With plans to expand to over 40 cities in the next one year, operating cost is expected to remain elevated, driven by significant upfront cost to set up branches and field team, and marketing cost. However, with higher penetration in existing geographies, the overall operating cost is expected to be variable and driven down by economies of scale. During the first quarter of fiscal 2022, the group reported a net loss of about Rs 56.7 crore (Rs 160.3 crore loss during fiscal 2021) and is likely to achieve breakeven only during early fiscal 2024 as its AUM scales up. Ability to scale up significantly in order to drive down operating cost and achieve breakeven remains to be seen.

*** Modest resource profile**

RCPL relies primarily on funds from the parent in the form of intercorporate loan. During fiscal 2020, the company gained access to bank borrowings and funds from NBFCs. In fiscal 2021, the company was able to avail of funds from NBFCs and a bank. Its ability to further diversify across lenders and funding avenues by raising funds at competitive rates remains a key monitorable.

Liquidity: Adequate

As on June 30, 2021, the asset-liability maturity profile was comfortable with positive cumulative mismatches in the up to one-year bucket. Cash and equivalents stood at Rs 235.8 crore as on August 31, 2021. Additionally, liquidity is supported by the availability of credit lines from the parent as and when required, and short tenor assets of gold loan. Furthermore, the company policy is to maintain liquidity sufficient to cover six months' interest and principal repayments. As on August 31, 2021, RCPL had scheduled debt repayment of Rs 26.5 crore till November 2021.

Outlook: Stable

CRISIL Ratings believes RCPL will continue to benefit over the medium term from its healthy capitalisation and comfortable asset quality.

Rating Sensitivity Factors

Upward Factors:

- * Ramp-up in operations resulting in group achieving profitability
- * Sustainability in 90+dpd below 2% over the medium term

Downward Factors:

- * Steady state gearing remaining above 4 times, or inability to raise capital to fund growth
- * Any adverse movement in asset quality with 90+dpd increasing sharply on steady state basis
- * Inability to stem losses or delay in reporting profits

About RFPL

Founded in August 2015, RFPL has developed an asset-backed online lending platform. It started disbursing gold loans through its app, Rupeek, with the lending partner in January 2016.

About RCPL

RCPL is a wholly owned subsidiary of RFPL and was set up with the aim of co-lending with the parent's lending partners. RCPL acquired its NBFC licence in December 2017 and initially disbursed gold loans by itself, using the Rupeek platform. RCPL first entered into co-lending arrangements with RFPL's lending partners in April 2019 and has been scaling up the business since July 2019.

Key Financial Indicators

As on/for the year ended March 31^	Unit	Jun-2021*	2021	2020
Total assets	Rs crore	607.6	644.8	416.9
Advances	Rs crore	1487.3	1452.9	653.0
Total income	Rs crore	22.9	92.0	34.9
PAT	Rs crore	-56.7	-160.3	-77.2
Gross NPA	%	3.2	0.2	0.1
Adjusted gearing	Times	0.34	0.23	0.05
Return on assets	%	Negative	Negative	Negative

^Consolidated numbers

*Provisional numbers

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Complexity level	Rating outstanding with outlook
INE0DG907016	Non-convertible debentures	29-Jun-20	12.5	29-Jun-23	10	Simple	CRISIL BBB-/Stable
NA	Non-convertible debentures^	NA	NA	NA	30	Simple	CRISIL BBB-/Stable
NA	Proposed long term bank loan facility	NA	NA	NA	50	NA	CRISIL BBB-/Stable

^Yet to be issued

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Rupeek Fintech Pvt Ltd	Full	Holding Company

Annexure - Rating History for last 3 Years

	Current	2021 (History)	2020	2019	2018	Start of 2018

Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	50.0	CRISIL BBB-/Stable	30-06-21	CRISIL BBB-/Stable	25-06-20	CRISIL BBB-/Stable		--		--	--
Non Convertible Debentures	LT	40.0	CRISIL BBB-/Stable	30-06-21	CRISIL BBB-/Stable	25-06-20	CRISIL BBB-/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Proposed Long Term Bank Loan Facility	50	CRISIL BBB-/Stable

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
CRISILs Criteria for Consolidation

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