

# Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

**CRISIL**

An S&amp;P Global Company

## Rating Rationale

June 22, 2022 | Mumbai

### Digikredit Finance Private Limited

Ratings downgraded to 'CRISIL BB+/Negative/CRISIL A4+'

#### Rating Action

Total Bank Loan Facilities Rated	Rs.100 Crore
Long Term Rating	CRISIL BB+/Negative (Downgraded from 'CRISIL BBB-/Stable')

Rs.15 Crore Non Convertible Debentures	CRISIL BB+/Negative (Downgraded from 'CRISIL BBB-/Stable')
Rs.25 Crore Non Convertible Debentures	CRISIL BB+/Negative (Downgraded from 'CRISIL BBB-/Stable')
Rs.25 Crore Commercial Paper	CRISIL A4+ (Downgraded from 'CRISIL A3+')

1 crore = 10 million

Refer to Annexure for Details of Instruments &amp; Bank Facilities

#### Detailed Rationale

CRISIL Ratings has downgraded its ratings on the existing debt instruments and bank facilities of Digikredit Finance Private Limited (Digikredit) to '**CRISIL BB+/Negative/CRISIL A4+**' from '**CRISIL BBB-/Stable/CRISIL A3+**'.

The rating action reflects the delay in the equity raise which was expected to be completed by first quarter of fiscal 2022. The company has received a term sheet from one of its existing investors aggregating to Rs 50 crores and has plans to increase the round size to Rs 100 crores. CRISIL Ratings believes that this equity infusion will provide some headroom for growth as the company plans to focus on co-lending majorly.

Additionally, CRISIL Ratings also notes that the liquidity position of the company is stretched. As per the latest details received, as on June 20, 2022, the company had cash and liquid investments in Mutual Funds of around Rs 4.10 crores against debt repayments of 7.53 crores in last 10 days of June and Rs 33.85 crores till September 30, 2022 excluding operating expenses. CRISIL Ratings understands that the company has received sanctions of Rs 20 crores from 2 lenders on June 22, 2022 which will be drawn and therefore will provide some cushion on the liquidity position in addition to its normal business collections. As of February 28, 2022, the liquidity cover for Digikredit for debt payments (including interest expense) until May 2022 was comfortable at around 2.2 times after giving the benefit of 70% of average monthly collections. CRISIL Ratings therefore believes that the timely drawdown on these loans and enhancing liquidity cushion for the company is a critical monitorable.

The ratings continue to reflect the experience of promoters and management team and their relevant experience. However, the ratings are constrained by the weak asset quality metrics and continued burn in earnings profile which has depleted the capital levels of the company.

CRISIL Ratings also notes, that on account of operational and technical issues pertaining to internal IT systems there were delays in few loan repayments in June 2022. However, the company had sufficient liquidity to meet these debt repayments and there are no outstanding as on date.

#### Analytical Approach

CRISIL Ratings has analysed the standalone business and financial risk profiles of Digikredit.

#### Key Rating Drivers & Detailed Description

##### Strengths:

##### \* Significant experience of promoters and senior management

The company's founder, Mr Samir Bhatia, is a senior banking professional having over 30 years of experience in the financial sector and held senior leadership positions in institutions like Citibank, HDFC Bank, Barclays Bank and Equifax. He was a founding team member at HDFC Bank. Top management has extensive experience in handling various functions in similar businesses, including collections, backend operations, credit, and legal. The company has an experienced board and has appointed reputed auditors.

The Company has invested significantly in analytics capability, underwriting capabilities, data science, and risk analytics. This is especially important as the unsecured business loans market has inherent risk. Management has, therefore, put in place a completely in-house collections team with high focus on early bucket delinquencies and control on bounce rates. The operational risk aspect has been minimised through IT systems as all the deviation approvals and disbursements are automated and done through a centralised system.

##### Weaknesses:

##### \* Depleted capitalisation metrics due to delay in equity raise and continued burn

The company's equity raise plans which was expected to be completed by first quarter of fiscal 2022 has been delayed. The company has received a term sheet from one of its existing investors aggregating to Rs 50 crores and has plans to increase the round size to Rs 100 crores. CRISIL Ratings believes that this equity infusion will provide some headroom for growth as the company plans to focus on co-lending majorly.

The company had been able to raise capital of around Rs 218 crore since inception from private equity funds as well as promoters and high networth individuals (HNI) with the recent equity infusion of Rs 25 crore taking place in December 2021 (Rs 110 crore in March 2020). Consequently, networth stood at around Rs 63 crore as on December 31, 2021, while adjusted gearing (including securitisation) was at around 3.3 times.

CRISIL Rating notes that the future capital raises will be necessary to cover for any asset-side risks and therefore further delay in raising the equity is a key monitorable.

#### **\*Asset quality susceptible to risks inherent in unsecured business loans; loan book lacks seasoning**

Digikredit's asset quality is susceptible to risks associated with unsecured loans wherein the borrower credit profiles could be relatively weak. Amidst weak and challenging macro-economic environment, impact on the asset quality was visible as adjusted 90+ dpd (after adding back last 12 months write-offs) increased to 11.4% as on Dec-21 as compared to 8.2% as on Mar-21 at consolidated level including partner book. At the own book NBFC level as well, adjusted 90+ dpd (after including last 12 months write-offs) increased to 11.7% as on Dec-21 from 5.9% as on Mar-21. However, the majority portion of the delinquencies came from the pre-covid book. CRISIL Ratings understands that at AUM level, the pre-covid book now constituted 30% of the overall AUM. On the restructuring side, Digikredit has restructured around 8.0% of its portfolio as on December 31, 2021.

Collection efficiency after dropping to 80% in April 2021 due to second-wave of the pandemic, improved to 92% in June 2021 and has remained above 93% since then, with efficiency ratio reaching 96% in February 2022, thereby staying equivalent to the pre-covid levels. Digikredit over the last fiscal tightened its underwriting risk scorecards i.e. lending to only essential goods industries and reducing the maximum ticket size etc. It also enhanced its existing collection and risk management infrastructure by investing significantly in technology. Having said that, the ability to sustainably improve the collection efficiency and hence manage asset quality especially amidst uncertain macro-economic environment will continue to be a key monitorable.

Furthermore, as Digikredit started its lending business from fiscal 2017, seasoning in the portfolio is limited. Digikredit keeps on enhancing its risk management systems on the basis of its past experience and external environment. Nevertheless, the company's ability to contain delinquencies within manageable levels will need to be demonstrated over the medium term.

#### **\* Weak earnings profile**

Given nascent stage of operations, earnings profile is currently constrained amid high operating costs given the low growth on account of pandemic impact and continuous significant investment on enhancing risk management and collections infrastructure and hiring of senior management professionals. Operating costs are expected to reduce as the company achieves scale, and employee costs normalize. The central underwriting model and digital operations will also support operating leverage.

The earning profile remains vulnerable to high credit cost as well owing to vulnerable customer segments and aggressive provisioning policy as company writes-off loans at 180+ dpd. The same was witnessed in fiscal 2021 and first nine months of fiscal 2022, wherein credit cost increased.

Consequently, the company reported a loss of Rs 43.5 crore in first nine months of fiscal 2022, majorly contributed by credit cost of Rs 28.4 crore which was in turn high mostly due to pandemic impact. The company is expected to turn profitable at PPOP (pre-provisioning operating profit) level in FY23.

Therefore, earnings profile hinges upon the ability to lower operating expenses and manage credit costs, hence the ability to do so will remain a key monitorable.

Additionally, as the portfolio scales up and gearing increases, ability to raise resources at competitive costs will also be a key monitorable.

#### **Liquidity: Stretched**

Liquidity position of the company is stretched. As per the latest details received, as on June 20, 2022, the company had cash and liquid investments in Mutual Funds of around Rs 4.10 crores against debt repayments of 7.53 crores in last 10 days of June and Rs 33.85 crores till September 30, 2022, excluding operating expenses. CRISIL Ratings understands that the company has received sanctions of Rs 20 crores from 2 lenders on June 22, 2022, which will be drawn and therefore will provide some cushion on the liquidity position in addition to its normal business collections. As of February 28, 2022, the liquidity cover for Digikredit for debt payments (including interest expense) until May 2022 was comfortable at around 2.2 times after giving the benefit of 70% of average monthly collections. CRISIL Ratings therefore believes that the timely drawdown on these loans and enhancing liquidity cushion for the company and is a critical monitorable.

#### **Outlook: Negative**

CRISIL Ratings believes that liquidity and profitability issues are weighing down on the credit profile of the company and timely infusion of equity and drawdown of funds from lender sanctioned limits will remain critical monitorables for Digikredit.

#### **Rating Sensitivity factors**

##### **Upward factors**

- Sustainable return to profitability without deterioration in asset quality metrics as the portfolio scales up
- Completion of a substantial equity raise
- Shoring up of the liquidity buffers of the company with substantial funds raised and consistently maintaining liquidity buffers of 2-3 months of debt repayments and disbursements.

##### **Downward factors**

- Any adverse movement in asset quality with adjusted 90+ dpd (after adding back 12 months write-offs) remaining above 9%

- Company continuing to report losses at PBT (profit before tax) level
- Any delay / reduction in quantum of funds being raised from incremental lines from financiers beyond June 27, 2022
- Any delay in raising bridge capital of funding from investors beyond July/ early August 2022

### About the Company

Digikredit is a non-deposit taking non-systemically important NBFC that provides unsecured business loans and loans against property, with focus on the SME segment in India. It currently operates 18 branches in three states and one UT: Gujarat, Maharashtra, Rajasthan and Delhi.

The company began operations from fiscal 2016 as an online market place. From fiscal 2017, it entered the lending phase with loans being booked on partner books. After receiving the NBFC license in February 2018, Digikredit commenced on-book lending. Despite the economic environment, the AUM of the company grew at a CAGR 196% to reach at Rs 455 crore as on March 31, 2021. The growth was impacted in the first quarter of fiscal 2022, due to low disbursements, however, the same started picking up from second quarter onwards. As a result, the AUM grew at an annualized rate of 10% in the first nine months of fiscal 2022, with AUM reaching to Rs 490 crore as on December 31, 2021. Given the business model of the company, around Rs 304 crores was on partner books with rest being on-book. Unsecured business loans continue to constitute bulk of the portfolio at around 89% with the rest being constituted by loans against property (LAP). Digikredit is expected to pick up its growth on expectation of economic rebound this fiscal and high usage of technology leading to very low turnaround time.

### Key Financial Indicators

As on/for the year/period ended	Unit	Dec-21*	Mar-21	Mar-20
Total assets	Rs crore	242.6	293.3	253.7
Advances (including partner book)	Rs crore	486.5	455.1	383.8
Total income	Rs crore	50.1	57.3	47.4
Profit after tax	Rs crore	-43.5	-48.9	-39.2
90+ dpd (including partner book)	%	3.3	3.5	1.0
Adjusted 90+ dpd (including partner book after including last 12 months write-offs)	%	11.4	8.2	4.4
Adjusted gearing	Times	3.3	2.6	1.1
Return on managed assets	%	Negative	Negative	Negative

Note: Managed assets = Total reported own book asset + Securitisation

\*Provisional based on unaudited financials

**Any other information:** Not applicable

### Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

### Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Term Loan	NA	NA	Sep-21	10	NA	CRISIL BB+/Negative
NA	Term Loan	NA	NA	Jun-23	10	NA	CRISIL BB+/Negative
NA	Term Loan	NA	NA	July-23	15	NA	CRISIL BB+/Negative
NA	Term Loan	NA	NA	July-23	25	NA	CRISIL BB+/Negative
NA	Term Loan	NA	NA	Jan-22	25	NA	CRISIL BB+/Negative
NA	Term Loan	NA	NA	Aug-23	15	NA	CRISIL BB+/Negative
NA	Non-convertible Debentures^	NA	NA	NA	5	Simple	CRISIL BB+/Negative
INE01ED07036	Non-convertible Debentures	23-Feb-21	14.75%	30-Dec-22	10	Complex	CRISIL BB+/Negative
INE01ED07028	Non-convertible Debentures	23-Feb-21	14.75%	30-Mar-23	10	Complex	CRISIL BB+/Negative
NA	Non-convertible debentures^	NA	NA	NA	15	Simple	CRISIL BB+/Negative
NA	Commercial Paper	NA	NA	7-365 days	25	Simple	CRISIL A4+

^Not yet issued

### Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	100.0	CRISIL BB+/Negative	07-04-22	CRISIL BBB-/Stable	03-12-21	CRISIL BBB-/Stable	25-09-20	CRISIL BBB-/Stable	10-07-19	CRISIL BBB-/Positive	--
			--		--	07-07-21	CRISIL BBB-/Stable	06-05-20	CRISIL BBB-/Stable		--	--

			--		--	15-03-21	CRISIL BBB-/Stable		--		--	--
			--		--	05-03-21	CRISIL BBB-/Stable		--		--	--
<b>Commercial Paper</b>	ST	25.0	CRISIL A4+	07-04-22	CRISIL A3+	03-12-21	CRISIL A3+		--		--	--
			--		--	07-07-21	CRISIL A3+		--		--	--
<b>Non Convertible Debentures</b>	LT	40.0	CRISIL BB+/Negative	07-04-22	CRISIL BBB-/Stable	03-12-21	CRISIL BBB-/Stable		--		--	--
			--		--	07-07-21	CRISIL BBB-/Stable		--		--	--
			--		--	15-03-21	CRISIL BBB-/Stable		--		--	--
			--		--	05-03-21	CRISIL BBB-/Stable		--		--	--

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Term Loan	10	HDFC Bank Limited	CRISIL BB+/Negative
Term Loan	15	IndusInd Bank Limited	CRISIL BB+/Negative
Term Loan	25	IDFC FIRST Bank Limited	CRISIL BB+/Negative
Term Loan	25	IDFC FIRST Bank Limited	CRISIL BB+/Negative
Term Loan	15	IDFC FIRST Bank Limited	CRISIL BB+/Negative
Term Loan	10	HDFC Bank Limited	CRISIL BB+/Negative

This Annexure has been updated on 22-Jun-22 in line with the lender-wise facility details as on 01-Dec-21 received from the rated entity.

#### Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for Finance Companies</a>

Media Relations	Analytical Contacts	Customer Service Helpdesk
<b>Aveek Datta</b> Media Relations <b>CRISIL Limited</b> M: +91 99204 93912 B: +91 22 3342 3000 <a href="mailto:AVEEK.DATTA@crisil.com">AVEEK.DATTA@crisil.com</a>	Krishnan Sitaraman Senior Director and Deputy Chief Ratings Officer <b>CRISIL Ratings Limited</b> D: +91 22 3342 8070 <a href="mailto:krishnan.sitaraman@crisil.com">krishnan.sitaraman@crisil.com</a>	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301  For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a>  For Analytical queries: <a href="mailto:ratingsinvestordesk@crisil.com">ratingsinvestordesk@crisil.com</a>
<b>Prakruti Jani</b> Media Relations <b>CRISIL Limited</b> M: +91 98678 68976 B: +91 22 3342 3000 <a href="mailto:PRAKRUTI.JANI@crisil.com">PRAKRUTI.JANI@crisil.com</a>	Ajit Velonie Director <b>CRISIL Ratings Limited</b> D: +91 22 4097 8209 <a href="mailto:ajit.velonie@crisil.com">ajit.velonie@crisil.com</a>	
<b>Rutuja Gaikwad</b> Media Relations <b>CRISIL Limited</b> B: +91 22 3342 3000 <a href="mailto:Rutuja.Gaikwad@ext-crisil.com">Rutuja.Gaikwad@ext-crisil.com</a>	Vaibhav Arora Senior Rating Analyst <b>CRISIL Ratings Limited</b> B: +91 22 3342 3000 <a href="mailto:Vaibhav.Arora@crisil.com">Vaibhav.Arora@crisil.com</a>	



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