InCred Financial Services Limited

Jan 02, 2023

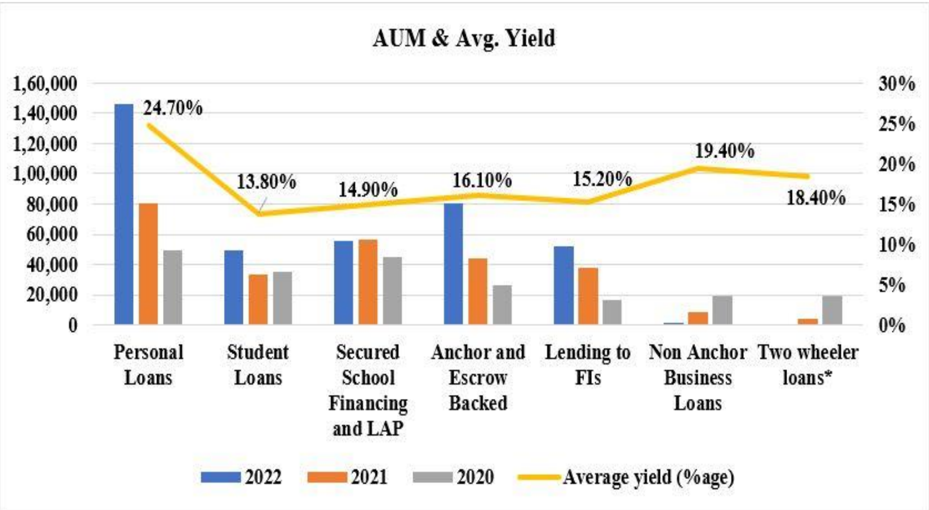
Business Overview

Company Profile:

- InCred Financial Services Ltd ('IFSL') is a non-deposit taking, non-banking financial company headquartered in Mumbai.
- It was incorporated as Multiflow Financial Services Pvt. Ltd. on 3rd Feb'95 as a private company under the Companies Act, 1956. It changed its name to KKR India Financial Services Pvt. Ltd as on 13th Aug'10 & later on it was converted from Pvt. to public company on 24th Jul'19 and consequently name of the Company was changed to KKR India Financial Services Limited. Pursuant to Composite Scheme of Amalgamation and Arrangement effective from April 01, 2022 the name was changed to InCred Financial Services Limited('IFSL').
- The company is engaged in the business of providing all forms of credit or financing facilities to all categories of borrowers, including without limitation retail lending, lending to micro, small and medium enterprises, digital and non-digital financing.
- As on September 30, 2022, the AUM (Rs 5,052) mix consists of personal loans (38%), secured school financing (10%), student loans (16%), lending to NBFCs (10%) and anchor & escrow backed business lines (19%)
- The company has strong capitalization with Net Worth of ~2,300Cr and Low Gearing of 1.6X as on 30th Sep 2022.

Product Portfolio:

- InCred had a diversified loan portfolio of Rs 5,052 crore as on September 30, 2022 which marks a half-yearly growth of 33% (non-annualized).
- As on September 30, 2022, the AUM mix consists of personal loans (38%), secured school financing (10%), student loans (16%), lending to NBFCs (10%) and anchor & escrow backed business lines (19%). Apart from these, erstwhile KKR India's wholesale portfolio also constitutes 6% of the AUM however, this share has declined from 13% as of June 30, 2022.
- Product wise break-up of AUM and average yield of Pre-demerger InCred as of 31st March 2022, 2021 and 2020 is as follows:



Issue Details

Public issue of Secured, rated, listed, redeemable, non-convertible debentures aggregating up to ₹ 1,750 million with an option to retain over-subscription of 1,750 million aggregating up to ₹ 3,500 million (limit)

Credit Rating: CRISIL A+
Face value: ₹ 1,000/-

Price band: ₹ 1,000 per NCD
Bid Lot: 10 NCD and in multiples 1 NCD thereafter

Lead Managers: JM Financial Limited,
Registrar: Link Intime India Private Limited
Debenture Trustee: Catalyst Trusteeship Services Limited
Credit Rating Agency: CRISIL Ratings Limited
Statutory Auditor: S. R. Batliboi & Associates LLP

Indicative Timetable

Activity	On or about
Issue Opens	09-01-2023
Issue Closes	27-01-2023

Listing: NSE & BSE

Competitive Strengths

Experienced Board and management Team: Being a professionally managed company the senior management team has an established track record in the financial services industry with diverse experience in various financial services and functions related to the business. The knowledge and experience of the senior and mid-level management team members provides a significant competitive advantage as they seek to grow the business and expand to new geographies. At present, IFSL has 8 Directors on the Board, out of which three are Independent Directors, Bhupinder Singh is the Whole-time Director and CEO, Vivek Bansal is Whole-time Director and CFO and three Directors are Non-Executive Directors.

Diversified credit profile, strong credit evaluation and risk management systems: IFSL has diversified its credit risk and ensured that no individual credit product contributes a large portion to the overall credit book. IFSL believes that this mitigates the risk of concentration to any particular product or sector and helps to manage the risk exposure in a more effective manner. The company also believes that the scale of retail credit portfolio imparts stability to the credit book. Each of the key business processes is regularly monitored by the respective business or operations head.

Prudent credit and collection policies aimed at maintaining strong asset quality: IFSL's credit policies specify the types of loans to be offered, the documentary requirements and limits placed on loan amounts with separate policies tailored for separate product segments. These policies are aimed at supporting the growth of business by minimizing the risks associated with growth in the loan book. It also established protocols and procedures to be followed when engaging with customers, as well as to determine the authority and levels to which credit decisions can be taken at various offices. Over the years, it has gained significant experience in loan underwriting and this is now a key contributor to its business.

It also has experienced collections team which, with our legal team, have enabled us to maintain effective collection efficiencies through economic cycles. The centralized credit & risk analysis processes combined with our dedicated collections team help maintain the quality and growth of our total AUM.

Reach across a varied Customer base and customer sourcing models: The lending business is sourced digitally as well as through partners, direct selling agents and in-house sales team. It partners with online, and offline, platforms to leverage business data for consumer lending. It quickly finances consumer loans, education loans and SME loans, resulting in customer delight, conversions, transactions, revenue, and profit for the platform. It also conducts site verification visits and interviews with the applicant before the disbursement of loan. On the sanction of a loan amount, repayment terms are set out up on completion of all documentation requirements by the applicant. With presence across 24 locations, it has established a diverse customer base, situated across India.

For further details, refer to 'Our Strengths' page 99 of Prospectus.

Business Strategies

Leverage on technology and digital platforms to improve customer reach and operating efficiency: The company use technology and data-science to make lending quick, simple and hassle-free. They also intend to further develop and strengthen their technology platform to support the growth and improve the quality of their services. They will continue to update our systems and use latest technology to streamline the credit approval, administration and monitoring processes to meet customer requirements on a real-time basis. The company believe that improvements in technology will also reduce our operational and processing time, thereby improving efficiency and allowing them to provide better service to our customers.

Continue to follow prudent risk management policies to maintain strong asset quality: They believe that the success of business is dependent on the ability to consistently implement and streamline the risk management policies. As we focus on growing our Loan Book with low credit risk, they will continue to maintain strict risk management standards to reduce credit risks and promote a robust recovery process. The company also intend to further develop and strengthen their technology platform to support our growth and improve the quality of their services.

Attract and retain talented professionals: The company have been successful in attracting and retaining a team of professionals with experience in credit evaluation, risk management, technology and business. They have created the right balance of performance and other economic incentives for the employees so that they are motivated to develop business, achieve profitability targets and control risk. The company, from time to time, review their systems and procedures to enable them to respond effectively to changes in the business environment and enhance overall performance.

Growth of the business through increasing geographical presence across India: They intend to continue to grow their loan portfolio by expanding the network through the addition of new branches. In order to optimize the expansion, they carefully assess potential markets by analyzing demographic, competitive and regulatory factors, site selection and availability, and growth potential. A good reach to customers is very important in their business. Increased revenue, profitability and visibility are the factors that drive the branch network. The strategy for branch expansion includes further strengthening the presence in various parts of India by providing higher accessibility to customers.

For further details, refer to 'Strategies' page 100 of Prospectus.

Profile of Directors

Bhupinder Singh is a Whole-time Director & Chief Executive Officer is the Founder of the InCred Group. Prior to the InCred, he co-headed the Investment Banking and Securities division of Deutsche Bank for the Asia Pacific region with a USD 3 billion top line. In this role, he managed the Bank's Fixed Income, Equities and Investment Banking divisions.

He was also the head of the Corporate Finance division for Deutsche Bank in the Asia Pacific region managing the bank's corporate coverage, investment banking, capital markets, advisory and treasury solutions businesses. His professional odyssey has spanned across two decades in the financial services sector, with more than 7 years in running and supervising Indian businesses. He holds a Post Graduate Diploma in Management (PGDM) from IIM Ahmedabad.

Vivek Bansal is a whole-time Director & Chief Financial Officer of the Company has several years' experience in the field of banking & finance. He was previously associated with Yes Bank where he worked from 2011 till 2018, with his last designation being Senior President and Deputy Chief Financial Officer. Prior to Yes Bank, he worked with Fidelity Investments and Standard Chartered. He is a Chartered Accountant and has cleared CFA.

Sanjay Omprakash Nayar has 38 years of experience in the financial services (with Citibank for ~25 years and ~13 years with KKR in India). He served as Chief Executive Officer of Citigroup's in various positions in India. Sanjay Omprakash Nayar joined KKR India Advisors Private Limited in 2009 and was Partner and Chief Executive Officer till December 2020. He is now Advisor to KKR India effective January 01, 2021. He is on the board of KKR's portfolio companies. In addition, he now serves as a non-Executive Director of FSN E-Commerce Ventures Ltd. (NYKAA). He holds a post graduate degree in management from Indian institute of Management Ahmedabad. Currently, he is a member of the Board of US-India Strategic Partnership Forum (USISPF), Governing Board of Indian School of Business (ISB), Executive Member of CII PE/VC Committee. He is on the Advisory Board of Habitat for Humanity; Chairman of Grameen Impact Investments India (GIII); Ministry of Commerce and Industry, Government of India, has recently nominated him as one of the Non-official Members of Board of Trade (DGFT).

Gaurav Trehan is Partner, CEO of India of KKR India. Prior to joining KKR, he worked in TPG Capital Limited, where he spent more than 15 years and was a Partner in its India office. He has evaluated and executed private equity transactions across a diverse range of sectors in India. Prior to joining TPG, he worked in the mergers, Acquisitions and Restructuring Department of Morgan Stanley with a focus on the technology sector. He is a member of the Board of US-India Strategic Partnership Forum (USISPF).

Debashish Dutta Gupta joined banking in 1992 with Citibank in India. Over the years he has worked with Citibank in different roles in quantitative research, structuring, fixed income trading, structured credit, proprietary trading and most recently in private banking. His different roles in Citibank have been based in Singapore, Hong Kong and London. He was also with Lehman Brothers in London managing their Emerging Market Credit group for 2 years from 2006 to 2008. In 2018, he left Citibank to pursue his interest in quantitative trading research. He is also a co-founder of a family office advisory company based in Singapore. He has B. Tech in Computer Science and Engineering from IIT Madras and a PGDM from IIM Calcutta.

Rupa Rajul Vora has an experience of over 3 decades with 11 years spent with IDFC Group managing Finance, Risk Management, Audit, Tax and Compliance in the capacity of Group Director & Chief Financial Officer – IDFC Alternatives Ltd. Prior to IDFC, she was associated with Antwerp Diamond Bank N.V. Her earlier banking experience was with KBC Bank N.V. Before joining the corporate world, she ran an independent practice as a Chartered Accountant for almost a decade. She was conferred with the "Women Leadership Excellence Award" at the IPE - BFSI Awards 2013 by the Institute of Public Enterprise and has also featured among India's 10 most influential women in finance by Rediff.com in 2012. She holds bachelor's degree in Commerce from Mumbai University and is a Chartered Accountant by profession.

Given above is the abstract of data on directors seen on page 133 & 134 of the Prospectus.

Object of the Offer

The Net Proceeds are proposed to be utilized in accordance with the details provided in the following table:

Particulars	Percentage of amount proposed to be financed from Net Proceeds
For the purpose of onward lending, financing and for repayment of interest and principal of existing borrowings of the Company*	At least 75%
General corporate purposes**	Maximum of up to 25%
Total	**100%**

*Company will not utilise the proceeds of this Issue towards payment of prepayment penalty, if any

**The Net Proceeds will be first utilized towards the Objects mentioned above. The balance is proposed to be utilized for general corporate purposes, subject to such utilization not exceeding 25% of the amount raised in the Issue, in compliance with the SEBI NCS Regulations.

Financials

(Rs. In Lakhs)

Particulars	As at 30th September, 2022	As at 31st March, 2022	As at 31st March, 2021	As at 31st March, 2020
Equity Share Capital	46,022.7	35,450.3	30,772.8	30,763.7
Other Equity	1,93,096.5	76,068.4	74,628.4	73,286.7
Net Worth	2,39,119.2	1,11,518.7	1,05,401.2	1,04,050.4
Revenue from Operations	39,812.4	48,803.2	38,549.5	32,362.3
Gross NPA (%)	2.4%	2.8%	3.9%	3.2%
Net NPA (%)	1.1%	1.4%	1.9%	1.5%
Profit/(Loss) Before Tax	6,525.8	4,185.5	352.5	713.8
Net Profit/(Loss) after tax	4,675.5	3,082.8	217.1	516.3
Basic Earnings Per Share	1.0	0.8	0.1	0.1

Above data obtained from pages 113-119 of the Prospectus

Key Risk Factors

- The customers may default in their repayment obligations, and that could have an adverse impact on the business, results of operations, financial condition and cash flows.
- Any increase in the levels of NPAs in the AUM, for any reason whatsoever, would adversely affect the business, results of operations, cash flows and financial condition.
- The loan book comprises of unsecured loans. The inability to recover the amounts due from customers in connection with such loans in a timely manner could adversely affect the operations and profitability.
- The Company is subject to certain legal proceedings and any adverse decision in such proceedings may have a material adverse effect on the business, financial condition, cash flows and results of operations.
- They have limited operating history and evolving business make it difficult to evaluate the business and future operating results on the basis of the past performance, and the future results may not meet or exceed the past performance.
- The company may not be able to generate enough taxable profit to offset the outstanding Deferred Tax Asset (DTA) in the accounts. The accumulated deferred tax acquired vide demerger may be subject to litigation by tax authorities.
- Any downgrade in the credit ratings may increase interest rates for raising new debt, refinancing the outstanding debt, which would increase the financing costs, and adversely affect the future issuances of debt and the ability to borrow on a competitive basis.
- Credit ratings may not reflect all risks. Any downgrading in credit rating of the NCDs may adversely affect the value of NCDs and thus the ability to raise further debts.
- The business requires substantial capital, and any disruption in funding sources would have a material adverse effect on the liquidity, cash flows and financial condition.
- The company are vulnerable to the volatility in interest rates and they may face interest rate mismatches between the assets and liabilities in the future which may cause liquidity issues.
- They may face asset-liability mismatches, which could affect the liquidity and consequently affect the operations and financial performance adversely.
- The Company is subject to certain restrictive covenants in the loan documents, which may restrict the operations and ability to grow and may adversely affect the business.
- They may not be able to recover, on a timely basis or at all, the full value of collateral or amounts which are sufficient to cover the outstanding amounts due under defaulted loans.
- The Statutory Auditors and previous statutory auditors of the Company and Pre-demerger InCred have highlighted certain emphasis of matters to their audit reports relating to their audited financial statements, which may affect the future financial results.
- The company has goodwill in the Interim Financial Statements as at and for the half year ended September 30, 2022 and Interim Consolidated Financial Statements as at and for the half year ended September 30, 2022 is subject to impairment testing.
- The Company and Pre-demerger InCred have in the past entered into related party transactions and may continue to do so in the future, which may potentially involve conflicts of interest with the equity shareholders.
- They depend on the accuracy and completeness of information about customers and counterparties for certain key elements of the credit assessment and risk management process. Any misrepresentation, errors in or incompleteness of such information could adversely affect the business and financial performance.
- The financing industry is becoming increasingly competitive, and is continuing stress on borrowers and loans under restructuring.
- They are subject to supervision and regulation by the RBI as a systemically important non – deposit accepting NBFC (“NBFC-ND-SIs”), and changes in RBI’s regulations governing us could adversely affect the business.
- They are subject to supervision by regulatory authorities and non-compliance with observations made by regulatory authorities during their periodic inspections could expose us to penalties and restrictions.
- The Company’s inability to obtain, renew or maintain the statutory and regulatory permits and approvals which are required to operate its existing or future businesses may have a material adverse effect on its business, financial condition, cash flows and results of operations.
- The measures to prevent money laundering may not be completely effective and they may be subject to scrutiny and penalties by the RBI for failure to implement effective measures. Moreover, various state government laws regulating money lending transactions could adversely affect the business, prospects, results of operations, cash flows and financial condition.

Please read further carefully the Risk Factors given in detail in section II (page 19 onwards) in Prospectus.

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Registration details:

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