Earlysalary Services Private Limited

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	350.00	CARE BBB+; Stable	Reaffirmed
Non Convertible Debentures	217.04	CARE BBB+; Stable	Reaffirmed
Non Convertible Debentures	75.00	CARE BBB+; Stable	Reaffirmed
Non Convertible Debentures	300.00	CARE BBB+; Stable	Reaffirmed
Commercial Paper	75.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the instruments/bank facilities of Earlysalary Services Private Limited (ESPL) are continue to factor the business potential of the technology-led risk assessment model with most of the credit underwriting process being digitally performed thus offering high operating leverage and rapid scalability. The rating also considers healthy capital levels as a result of steady capital infusion from investors, relatively low credit risk considering its focus on the salaried segment and profitable track record of operations with improvement seen in 9MFY24. ESPL's credit profile also derives strength from an adequately experienced management team.

However, the ratings are constrained by moderate asset quality metrics coupled with higher write-offs. The improvement in credit cost while keeping lower write offs at the parent level on a consolidated basis will be critical going forward for the ratings. Furthermore, ESPL's still-evolving business profile owing to recent regulatory changes like increase in risk weights, its moderate stage of operations and concentration in the resource profile with lower share of bank funding albeit improving gradually along with relatively higher cost of funding remain key rating constraints.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Sustained improvement in profitability with Return on Total Assets (ROTA) of at least 3% on a sustained basis.
- Improvement in the asset quality metrics including write-offs on a sustainedbasis.
- Improvement in liability profile & cost of funds with larger share from banks

Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade

- Expected/Visible signs of stress in asset quality with deterioration in asset quality metrics including GNPA (>4%), write-offsand lower collection efficiencies.
- Decline in capital levels or deterioration in leverage with overall gearing of more than 3.5 times at consolidated levels.
- AUM/Networth exceeding 5.5 times at the consolidated levels.
- Any adverse regulatory event/developments which impacts the business risk profile significantly

Analytical approach:

CARE has taken a consolidated view of SWTPL for assessing the financial position of ESPL. This has been revised from standalone factoring in linkages to give a better view, since SWTPL holds 100% of the NBFC (i.e. ESPL). Also the colending with the partners happen from the parent.

Outlook: Stable

The stable outlook reflects expectation of continued operational and technological support from its parent i.e., SWTPL. The stable outlook also factors in the maintenance of healthy business and financial parameters over the medium term.

Detailed description of the key rating drivers:

Key strengths

Continuous demonstrated record of mobilising capital: Social Worth Technologies Private limited (SWTPL), the technology parent company holds 100% stake in ESPL (as on December 31, 2023). Over the years, the cumulative capital infusion by various investors in SWTPL reached Rs. 985.50 crore till December 31, 2023. Out of this infusion, the company has downstreamed

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

Rs.602.14 crore to ESPL till December 31, 2023 from the parent with the recent infusion of Rs. 150 crore in the month of December 2023 (Rs. 496 crore being downstreamed during FY23 & 9MFY24). SWTPL's major investors include venture capital & Private Equity funds like The Rise Fund (TPG), Norwest Capital LLC, Eight Roads, Chiratae Ventures, Piramal Capital & Housing Finance Limited, etc. This demonstrates the ability of the parent company to garner funds from external investors as well as commitment of promoters towards growth of its business operations. Further, it also helps ESPL to maintain healthy capital cushions. Higher capital buffers also provide the required headroom to absorb any other unexpected losses which may arise due to a still-developing technology- based lending segment

As on December 31, 2023, Capital Adequacy Ratio of ESPL remained adequate at 23.23% (After considering increased RWA as per the RBI Directive dated November 16, 2023) (March 31, 2023: 28.60%) with overall gearing on a standalone basis at 2.26 times as on December 31, 2023 as against 2.88 times as on March 31, 2023. Overall gearing at consolidated level stood at 1.23x as on December 31, 2023 as against 0.58x as on March 31, 2023 on account of the increase in scale of operations. Similarly, AUM to Networth at consolidated levels stood at 3.52 times as on December 31, 2023 as against 2.07 times as on March 31, 2023. CARE Ratings expects that continuous support from external investors and promoters to raise funds at SWTPL along with down streaming of the same to ESPL will act as an adequate cushion to maintain the capital levels and sustain the growth of the company in near term.

Growth potential led by rapid scalability of the technology-based underwriting model: Assets Under Management (AUM) reported a growth of 93% from Rs. 1,019 crore as on March 31, 2022 to Rs.1,963 crore as on March 31, 2023, which further increased to Rs. 3,431 crore as on December 31, 2023. This is largely a result of a branchless model as the lending process is primarily digital with a majority of its credit risk underwriting processes – origination, risk assessment and disbursement being 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. Also, ESPL largely competes with banks and other NBFCs in the personal loans segment with the company's borrower profile mainly leaning towards the digitally-savvy younger demographics who require personal loans for home improvement, weddings, vacations, medical emergency, skill upgradation courses etc. Consequently, technology provides a competitive edge over traditional banks, considering the loan process – from application to disbursal taking very little time. Fibe, in collaboration with Axis Bank, has also introduced a UPI-enabled Rupay Co- branded Credit Card exclusively for its customers (in the month of October 2023) to build it customer base. The company has a pan-India presence for loans sanctioned in 30+ states and union territories with total customers on consolidated basis at 1.33 million as on December 31, 2023. CARE Ratings notes that while technology has demonstrated its capacity for growth, the ability of the company to keep a check on quality of the loans being sourced will remain a key rating sensitivity.

Experienced management team: ESPL's co-founders, Mr. Akshay Mehrotra (CEO) and Mr. Ashish Goyal (CFO) both possess more than two decades of experience together in the retail business and financial services. Akshay's previous experience has been in areas like strategic planning and marketing with some larger Indian brands. Akshay oversees the implementation of the company's product strategy and is focused on building the business and building EarlySalary as a Financial Institution. Ashish is a finance professional with over 19 years of experience spanning the entire gamut of finance including business finance/fund raising, risk management investment, treasury operations, risk management and strategic initiatives. Mr. Vimal Saboo, ESPL's Chief Business Officer has experience across credit decision making, formulating policies relating to sourcing, authorization center and analytics function in the Cards business. Mr. Anil Sinha, Chief Technology Officer, has delivered complex products in the space of distributed data processing, especially related to trade processing and risk analytics.

Improving Financial Profile; albeit continued high credit costs: At a consolidated level, SWTPL reported profits during FY23 (A) & 9MFY24 of Rs. 36.33 crore and Rs. 88.43 crore as compared to PAT of Rs. 4.00 crore during FY22 as a result of higher income resulting from growth in AUM. NIM (%) of the company improved to 6.64% during FY23 as against 4.91% during FY22 (9MFY24: 8.80%) on AUM basis. Other income (on AUM basis) increased from 16.30% during FY22 to 18.64% during FY23 (9MFY24: 15.96%). The growth in other income mainly comprised of loan processing fees from NBFC, servicing fees from its off-book partners and penalty charges. The Credit cost including service deficiency (on AUM basis) continued to remain high on account of higher write offs which increased to 8.89% during FY23 as against 4.87% during FY22. The credit cost stood at 8.43% during 9MFY24. Going forward, with increase in disbursements, the ability of the parent and the NBFC to improve profitability while minimizing credit cost will remain a key rating sensitivity.

ESPL reported a higher PAT of Rs. 15.17 crore during FY23 as against Rs. 2.89 crore during FY22 on IGAAP basis. This was driven by higher interest income and processing fees recorded on account of the book growth over the year. As per IND AS, during PAT improved to Rs.30.52 crore during 9MFY24. Similarly, ROTA (%) improved to 2.46% during 9MFY24 as against -1.30% during FY23 (IndAS basis). Losses during FY23 was on account of IND AS accounting for provisions as per IGAAP the company had reported ROTA of 1.63% during FY23. Improvement in profits during 9MFY24 was due to higher NIMs driven by yield on advances. Post the DLG, the change in business model leading to accounting of processing fees & other related charges on managed book at ESPL, has led to higher ROTA on a standalone basis. On IGAAP basis, ESPL's opex to average tangible total assets increased to 13.60% during FY23 (9MFY24: 15.36% -IND-AS) as against 12.55% during FY22. Due to change in the model, expenses like sourcing fees, employee cost have also increased at ESPL leading to increase in opex. Further, the employees were also given hikes given during April which added to the cost. The company's credit cost also remains elevated due to higher write-offs. Credit cost increased to 7.22% during FY23 on IGAAP (9MFY24: 11.69% on IND AS including the ECL Provisioning) as against 4.67% during FY22 due to the growth in the loan book. However, this remains inherent to the fintech industry. Improvement in credit cost is yet to be seen owing to a moderate track record of the company.

Key weaknesses

Moderate asset quality metrics, characterized by higher write offs: ESPL reported GNPA of 3.50% as on March 31, 2023 as against 2.68% as on March 31, 2022. GNPA had increased as on March 31, 2023 due to lower disbursements on its own book, however, GNPA levels have improved to 2.86% as on December 31, 2023. The write offs at ESPL continued to remain high which stood at Rs. 44.46 crore during FY23 as against Rs. 15.48 crore during FY22. This further increased to Rs. 94.17 crore during 9MFY24. The write offs of the company stood higher which remains inherent to the entities operating in the unsecured lending segment. Credit costs (on a consolidated basis) as a % of average AUM stood at 8.89% during FY23 as against 4.87% during FY22 and subsequently continued to remain high at 8.43% during 9MFY24. ESPL has a provision coverage ratio of 60% as on December 31, 2023 (March 31, 2023: 54% as per IGAAP). The bounce rates of the company stood in the range of 13% for the last 12 months ended December 31, 2023. The average resolution rate (within 1-30 days) for bounce cases stood at 80% for the period of 12 months ended December 31, 2023. CARE Ratings observes that high credit cost is a key feature of the companies operating in the digital lending segment which reflects the yet-to-stabilize business as well as risk models. However, ESPL's borrower segment is the young salaried class with average monthly income in the range of 60k-70k. Going ahead, CARE Ratings will continue to monitor the asset quality metrics along with the write-offs closely.

Moderate Operational History: ESPL has an operational track record of around 6 years with an AUM of Rs. 3,431 crore as on December 31, 2023 (March 31, 2023: 1,963 crore (having grown at a CAGR of 87% over FY19-FY23)). Due to moderate vintage, its asset quality performance through different economic cycles and geographies is yet to be established inducing a level of uncertainty. 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 the models will only be established over a period of time.

Regulatory risk: The ratings also take note of the regulatory risk associated with entities operating in digital lending as the regulations are still evolving in nature. There have been various guidelines by RBI in this sector like increase in risk weights for unsecured loans (November 16, 2023), pertaining to the FLDG structure (June 08, 2023) which will impact the companies in this sector. The digital lending entities are gaining momentum & size, and the regulations in the industry also evolving exposing the industry to regulatory risk. However, the extent of impact for fintech players may vary depending on the business model followed. CARE Ratings Limited will closely follow the developments in this industry and will consider taking appropriate rating action in case there are any developments or modifications.

Liquidity: Adequate

ESPL's asset liability maturity profile reflected cumulative surplus position across all maturity buckets as on December 31, 2023. The liquidity profile remains supported by the shorter tenure nature of loan book (6-8 months on an average).
As on January 31, 2024, on a consolidated basis, the company had unencumbered cash bank balances aggregating to Rs. 145.06 crore, unavailed bank overdrafts of Rs. 58.48 crore. On a steady state the company maintains 2 to 2.5 times of its repayments as liquidity at the consolidated levels at all times. CARE Ratings expects liquidity to remain adequately supported by the short-term nature of its loan portfolio in the near term.

Applicable criteria

CARE Ratings' criteria for rating of Short-Term Instruments
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Policy on Default Recognition
CARE Ratings' criteria on consolidation & combined approach
Financial Ratios – Financial Sector
Rating Methodology - Non-Banking Finance Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

Social Worth Technologies Private Limited

SWTPL, as holding company, is the entity through which external investors route their funds for investment in ESPL. Further, the entire technological back-end, credit engine, borrower-facing front-end and the ES app are held in the books of SWTPL. Depending on the need for funds at the NBFC level, the equity is further down-streamed into ESPL.

On consolidated basis

Brief Financials (₹ crore)	March 31, 2022 (A)-IGAAP	March 31, 2023 (A)-IGAAP	December 31, 2023 (UA)
Total operating income	180.35	428.92	582.72
PAT	4.00	36.33	88.43
Total Assets	626.48	1,607.13	2,452.93
Net NPA (%)	NA	NA	NA
ROTA (%) [on AUM]	0.59	2.44	4.36

A: Audited; UA; Unaudited; Total Assets are net of deferred tax and intangibles; All ratios are as per CARE's Calculations; Note: 'the above results are latest financial results available'

Earlysalary Services Private Limited

Earlysalary Services Pvt Ltd, subsidiary of Social Worth Technologies Private Limited (SWTPL) is a registered Non-Banking Financial Systematically Important Company (NBFC-SI), engaged in the business of financing unsecured consumer loans for salaried individuals. ESPL operates through an online app, Fibe earlier known as Earlysalary. These loans are usually advanced for meeting the ultra-short- term liquidity needs of the borrower. As a lending business model, ES is highly scalable, enabled by use of automation and deployment of technology for underwriting & risk management. It has been able to limit its turnaround time to 3 minutes, with more than 92% loans decided by its credit engine which was 70% around 3 years back. As on December 31, 2023, the company had an AUM of Rs. 3,431 crore.

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	INE01YL14074	12-01-2024	11.00%	08-04-2024	25.00	CARE A2
Commercial Paper-Commercial Paper (Standalone)	INE01YL14082	27-02-2024	12.60%	08-08-2024	25.00	CARE A2
Commercial Paper-Commercial Paper (Standalone)	Proposed	-	-	-	25.00	CARE A2
Debentures-Non-Convertible Debentures	INE01YL07094	30-12-2021	14.99%	31-12-2024	25.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07102	21-03-2022	14.66%	15-12-2024	30.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07128	28-03-2023	11.00%	05-04-2025	25.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07144	28-06-2023	10.86%	30-04-2025	25.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07151	25-07-2023	11.76%	28-01-2025	85.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures-Proposed	Proposed	-	-	-	27.04	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07250	31-01-2024	11.50%	05-08-2025	50.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	Proposed	-	-	-	25.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	Proposed	-	-	-	25.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07185	29-09-2023	11.75%	29-03-2026	80.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07177	14-07-2023	11.75%	18-03-2025	49.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07243	02-09-2023	12.30%	20-08-2025	21.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07219	30-10-2023	11.73%	05-11-2025	25.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07201	26-10-2023	11.75%	27-11-2025	25.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07193	31-10-2023	11.75%	06-11-2025	25.00	CARE BBB+; Stable
Debentures-Non-Convertible Debentures	INE01YL07235	26-12-2023	11.75%	26-12-2025	50.00	CARE BBB+; Stable
Fund-based-Long Term	NA	-	-	March 2027	298.24	CARE BBB+; Stable
Fund-based-Long Term-Proposed	NA	-	-	-	51.76	CARE BBB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debentures-Non Convertible Debentures	LT	217.04	CARE BBB+; Stable	-	1)CARE BBB+; Stable (20-Oct-23) 2)CARE BBB+; Stable (10-Aug-23)	1)CARE BBB+; Stable (31-Mar-23) 2)CARE BBB+; Stable (05-Dec-22)	1)CARE BBB; Stable (17-Mar-22) 2)CARE BBB; Stable (12-Oct-21)
2	Commercial Paper-Commercial Paper (Standalone)	ST	75.00	CARE A2	-	1)CARE A2 (20-Oct-23) 2)CARE A2 (10-Aug-23)	1)CARE A2 (31-Mar-23) 2)CARE A2 (05-Dec-22)	1)CARE A3 (17-Mar-22)
3	Fund-based-Long Term	LT	350.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (20-Oct-23) 2)CARE BBB+; Stable (10-Aug-23)	1)CARE BBB+; Stable (31-Mar-23) 2)CARE BBB+; Stable (05-Dec-22)	1)CARE BBB; Stable (17-Mar-22)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (31-Mar-23) 2)CARE A- (CE); Stable (05-Dec-22)	1)CARE BBB+ (CE); Stable (17-Mar-22) 2)CARE BBB+ (CE); Stable (29-Jul-21)
5	Un Supported Rating	LT	-	-	-	-	1)Withdrawn (31-Mar-23) 2)CARE BBB+ (05-Dec-22)	1)CARE BBB (17-Mar-22)

6	Fund-based - LT-Term Loan	LT	1.16	CARE A- (CE); Stable	-	-	1)CARE A- (CE); Stable (27-Feb-23) 2)CARE A- (CE); Stable (30-Jun-22)	1)Provisional CARE A- (CE); Stable (30-Mar-22)
7	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB+	-	-	1)CARE BBB+ (27-Feb-23) 2)CARE BBB (30-Jun-22)	1)CARE BBB (30-Mar-22)
8	Debentures-Non Convertible Debentures	LT	75.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (20-Oct-23) 2)CARE BBB+; Stable (10-Aug-23)	-	-
9	Debentures-Non Convertible Debentures	LT	300.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (20-Oct-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based-Long Term	Simple

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated- for SWTPL

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Earlysalary Services Private Limited	Full	100% owned subsidiary

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

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