



## RATING RATIONALE

15 Sep 2022

### Kreon Financial Services Limited

Brickwork Ratings assigns the ratings for the Bank loans Term Loans (Proposed) of Rs 10 Crs of Kreon Financial Services Limited (KFSL).

#### Particulars:

Instrument/ Facilities**	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous	Present
<b>Fund Based Bank loans - Term Loans (Proposed)</b>	<b>0</b>	<b>10.00</b>	<b>Long Term</b>	<b>NA</b>	<b>BWR BB/Stable Assignment</b>
<b>Total</b>	<b>0</b>	<b>10.00</b>	<b>Rs Ten Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Loan facilities is provided in Annexure-I

#### RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the long-term rating of BWR BB/Stable for the Bank loans Term Loans (Proposed) of Rs. 10 Crs of Kreon Financial Services Limited (KFSL), as tabulated above.

The rating factors in growth in AUM, moderate capitalisation, improved gearing, adequate liquidity, improving collection efficiency, along with visible recovery from bad debts. However, the rating is constrained by small scale of operations and moderate asset quality.

#### KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: N.A.

#### KEY RATING DRIVERS

##### Credit Strengths:-

- **Moderate capitalisation:** KFSL is adequately capitalized with tangible networth of Rs 11.85 Crs and a low gearing of 0.49x as on 31 March 2022. As on 31 March 2022, the company has a Capital to Risk weighted assets ratio (CRAR) of 102.46% and Tier I CRAR of 102.46%. Networth coverage for net non-performing assets (NPAs) is also comfortable at 22.79 times. BWR believes the company's current capitalisation levels cover for the asset side risks over the near term, though it shall be a monitorable over the medium term.

- **Comfortable Gearing:** The gearing is at 0.49x as on 31 March 2022 on account of warrants & equity infusion. The Promoters have already infused Rs 4.50 Crs in May 2022 in the form of equity shares. With this and proposed retention of profit into the business and

fresh issue of preference share of Rs 5.00 Crs, the gearing levels are expected to be maintained upto 1x levels over the near term.

- **Adequate Liquidity:** Given the fact that KFSL extends loans for short term with average tenure of ~30 days and is funded through own funds, thus the Company is able to maintain a comfortable liquidity position. As per the ALM profile dated 31 May 2022, the company had no cumulative negative mismatches across various buckets upto 5 years. As on 31 March 2022, the company had sufficient liquidity with cash and cash equivalents of Rs 1.44 Crs, with no tenure based debt repayments.

#### **Credit Risks:-**

- **Inherently modest credit profile of borrowers and small scale of operations:** The Company is into lending of small ticket size loans to students and therefore face the risk of non-payment of the loans as the borrowers may not have sufficient resources for payment along with low knowledge of consequences of default. The Company has written off Rs. 0.07 Crs. of bad debts in FY22 while the recovery in FY22 is marginal of Rs. 0.001 Crs. BWR notes that the recovery of written off amount is dependent on availment of the future loans by the borrowers in long term, as it is reported in the credit bureau reports.

KFSL's scale of operations remains small with a loan book of Rs 13.03Crs as on 31 March 2022 (Rs 6.74 Crs in FY21). The growth for FY22 has doubled (YoY growth of ~91%), given the small portfolio size. The total income from operations for FY22 has increased to Rs 3.82 Crs from Rs. 1.71 Crs for FY21 due to consistent fresh disbursements made in FY22 of ~Rs.28.23 Crs and total disbursements of Rs. 39.77 Crs. ROA and ROE have improved to 3.43% (FY21: -1.20%) and 6.87% (FY21: -6.23%). Going forward, increasing the scale of operations, improving profitability by reducing the operating, impairment and credit costs will be key rating monitorables.

- **Moderate asset quality:** In FY22, KFSL's asset quality weakened with Gross NPA ratio at 4.36% (FY21: 3.22%), with Net NPA ratio also weakening to 3.97% (Fy21: 2.80%). However the Company has recovered Rs. 0.29 Crs from bad debts written off. BWR shall monitor incremental slippages and its impact on provisions and profits. Going forward, the company's ability to manage asset quality and improve collection efficiency over the near term will be a key rating monitorable.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has considered the standalone financial profile of KFSL and applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

#### **RATING SENSITIVITIES**

**Positive:** KFSL's ability to grow sustainably while maintaining healthy asset quality and improving its profitability will be key rating positives

**Negative:** Substantial deterioration in asset quality, profitability and degrowth in AUM will be key rating monitorables.



**LIQUIDITY INDICATORS: Adequate**

KFSL extends loans for short term with average tenure of ~30 days and is funded through own funds, thus the Company is able to maintain a comfortable liquidity position. As per the ALM profile dated 31 May 2022, the company had no cumulative negative mismatches across various buckets upto 5 years. As on 31 March 2022, the company had sufficient liquidity with cash and cash equivalents of Rs 1.44 Crs, with no tenure based debt repayments, hence the available liquidity is sufficient to cover the repayments for the near term.

BWR notes the proposed borrowings in the form of term loans shall have repayment obligations on completion of the tenor of three years, with interest obligations to be met on a monthly basis. For which, the company shall be expected to generate adequate cash flows from its incremental business to service the interest obligations; which shall be a rating monitorable.

**COMPANY PROFILE**

Kreon Financial Services Limited (KFSL), is registered as a non-deposit taking 27-year-old NBFC established in the year 1994. The Company is currently listed on BSE. KFSL has been into the traditional lending business for the past two decades. With the boom of technology based services in the market, in 2019, KFSL started a new digital lending business division. KFSL specially designed and successfully developed an internal start-up digital lending app, “STUCRED: Real-Time Student Credit”.

The Company has tie-ups with 2000+colleges Pan-India where the Company provides unsecured small loans to the students of the affiliated colleges. The loan size range from Rs. 500 to maximum of Rs. 10000 and are repayable in 30 days. The Company charges an application usage fee which is deducted upfront. The Company has tied up with Paytm and HDFC Credila for repayment of loans.As on 31 March 2022, 48% of the equity shares are held by the promoter and group and the balance is held by the public.

**KEY FINANCIAL INDICATORS**

Key Financial Indicators	Units	FY20	FY21	FY22
Result Type		Audited	Audited	Audited
Revenue from operations	Rs.Crs	1.04	1.71	4.28
PAT	Rs.Crs	-4.30	-0.48	2.10
Tangible Networth	Rs.Crs	1.87	1.60	11.85
ROA	%	-21.28	-1.20	3.43
GNPA	%	0.06	3.22	4.36
CRAR	%	22.38	28.60	102.46

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY): Nil**



**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

Instrument / Facilities	Current Rating (2022)			Rating History		
	(Long Term/ Short Term)	Amount (Rs. Crs.)	Rating	2021	2020	2019
Bank Loan - Term Loan (Proposed)	Long Term	10	BWR BB Stable (Assignment)	Nil	Nil	Nil
Total		10	Rs Ten Crores Only			

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Bank loans - Simple**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks & Financial Institutions](#)

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## KREON FINANCIAL SERVICES LTD

### ANNEXURE I

#### Details of Loan Facilities rated by BWR

Sl. No.	Name of the Bank/Lender	Type of Facilities	Long Term (Rs.Crs.)	Short Term (Rs.Crs.)	Total (Rs.Crs.)
1	Fund based - Bank Loan - Term loans (Proposed)	Term Loans	10.00	0.00	10.00

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