

The Co-lending Model Explained

Case Study #1

Introduction

In this case study we explore a co-lending arrangement where Vivriti Capital acted as a **Principal Lender** to the loan originator or the **Agent Lending Company/NBFC**, which we are referring as ABC Pvt Ltd.

Vivriti Capital follows a strict due diligence and considers several parameters and rationale while choosing the Agent Lending company. In a co-lending arrangement, the deal size is generally significant and it often rolls into multiple underlying loan accounts in the long term. Hence, the diligence process consumes more time and needs deeper operational support compared to other lending arrangements. Below we present the key considerations of the diligence process about the company and argue in favour of ABC to be our co-lending agent.

Company background

History

Based out of a Tier-1 metro city, ABC has been in the B2C lending space for 5-10 years. Backed by prominent venture capital and private equity firms in India and abroad, the company offers personal loans to individuals.

The company has recently raised equity at the parent level in a Series D round, wherein majority of the funds were allocated to Company ABC. ABC currently has active partnerships with many leading NBFCs and fintech NBFCs in the country, including Vivriti Capital.



Industry

The size of the total lending market in India stood at >INR 170 lakh crores as of FY22, of which, retail lending accounts for ~50%. Credit cards, personal loans, consumer durable loans along with agri loans are the top segments by volume constituting over 50% of total active retail loans.

The consumer loan market in India has experienced significant growth in recent years. With rapidly increasing consumer aspirations, there has been a surge in demand for credit to finance various needs such as education, housing, vehicles, and personal expenses. In the period of FY19 to FY22, unsecured retail loans (which includes small ticket-sized loans, personal loans, and consumer durables loans) reportedly grew at a CAGR of 25%.

We hold a favourable outlook on the sector and anticipate no regulatory obstacles in the company's business expansion in the current scenario.



Collection efficiency

ABC has a healthy collection efficiency of more than 90% on an overall basis indicating company's collection performance.



Credit rating

The company has an investment grade credit rating.

Note: *Even if the credit rating is non-investment grade, the client can still be considered for co-lending in some cases if our due diligence process indicates a strong positive profile.*



Credit profile

ABC has a well-diversified lender base with 30-40 lenders onboard and has a healthy resource raising ability. It raised ~INR1000-2000 crores in FY23 and has a healthy credit line-up for the upcoming months.

In terms of the asset quality, the company's one or more loan instalments overdue for 0 to 30 days and more than 90 days (measured by loan portfolio at risk or PAR at 0 and 90 days) improved from upper single digits in March 2022 to lower single digits in March 2023.



Other factors

The company has also been considered in positive light due to

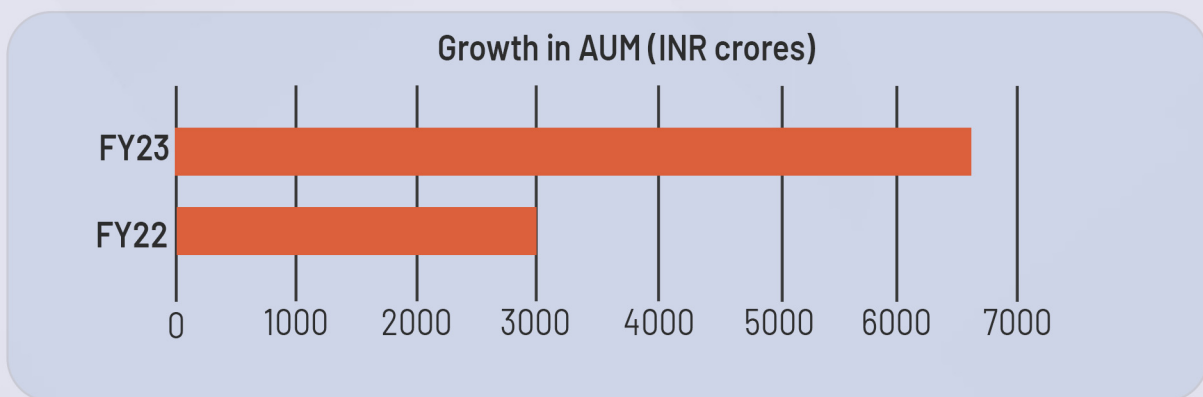
- Experienced management team
- Healthy liquidity
- Robust technology platform
- Sound expansion strategy

Why ABC Pvt Ltd is chosen as a co-lending agent?

After the company passed all the key profiling criteria, Vivriti Capital considered ABC as a co-lending agent based on the following rationale.

Scale of Operations

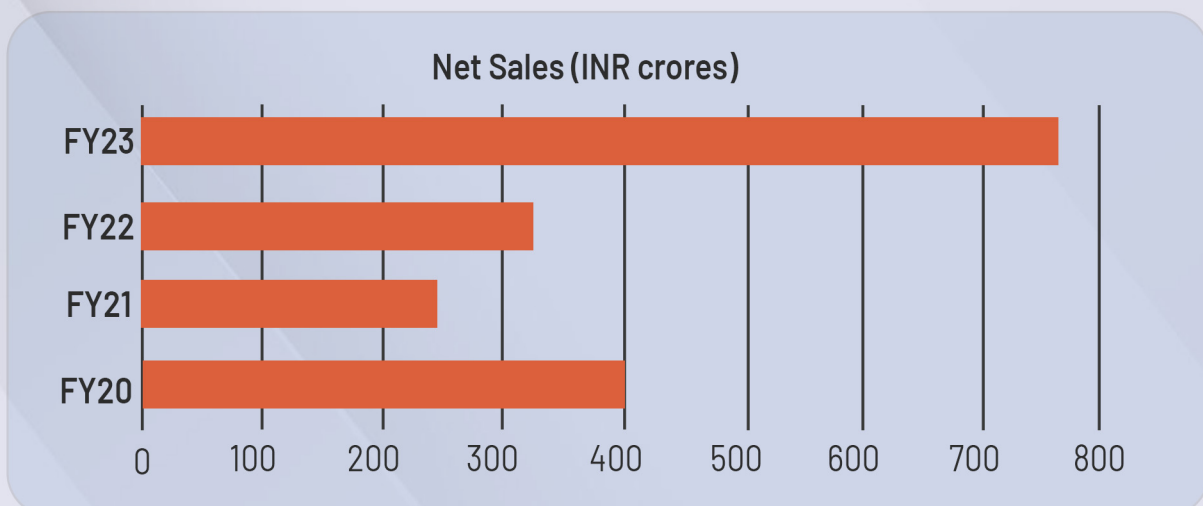
- The assets under management of ABC increased significantly by over 2x times from FY22.



- Being an app-based lender, ABC lends to potential customers across India. The top two contributing states to its AUM are Maharashtra and Karnataka.

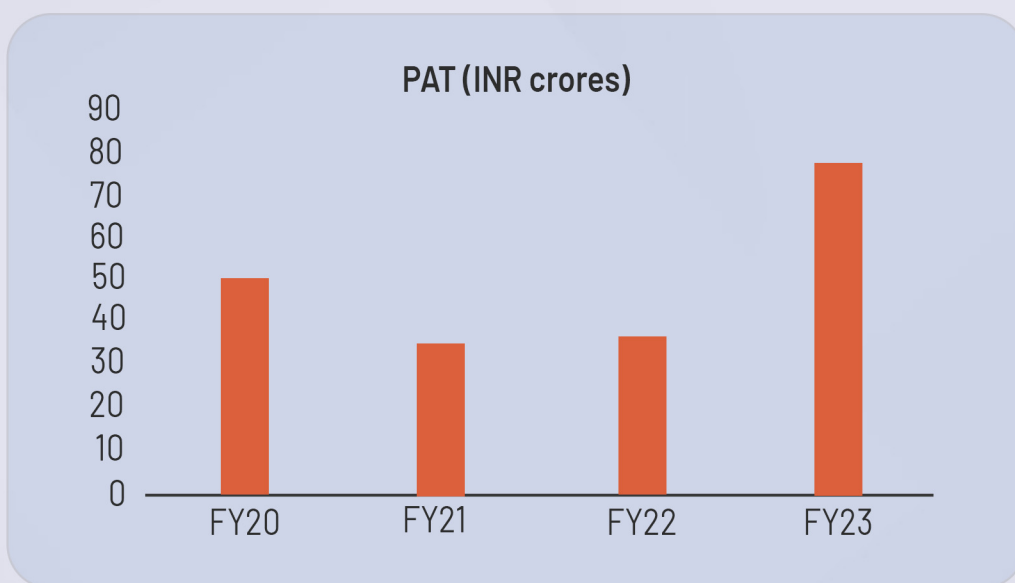
Business Growth

- ABC's net sales grew ~80-90% from FY20 to FY23.



A key parameter to examine when selecting a co-lending agent is that the entity must have a turnover of at least INR 100 crores. As we can see, ABC has been consistently maintaining this parameter, making them an ideal co-lending agent.

- Since 2021, ABC has been profitable on a month-on-month basis and witnessed an 50-60% CAGR increase in profit over FY20-23. ABC's PAT took a hit over FY21-22 due to the impact of the pandemic but recovered sharply in FY23 owing to its strong business model.



Conclusion

Vivriti Capital considered ABC as a co-lending agent due to its strong background, sound credit profile and noted the capability of the partner to sign for multiple deals given over its expanding scale of operations and strong business growth.

Co-lending agents are eligible to get 10-20x of its capital base based on the scale of their operations, healthy credit profile, and robust business growth. The co-lending agent ABC in question had a net worth of INR 1000-1500 crores and secured disbursements at a monthly run rate of over INR 1000 crores.

Disclaimer:

The financial data provided in the report is only for representation and are not exact values reported by the company.