# XYZ- INVESTMENT MEMO

## 1. EXECUTIVE SUMMARY

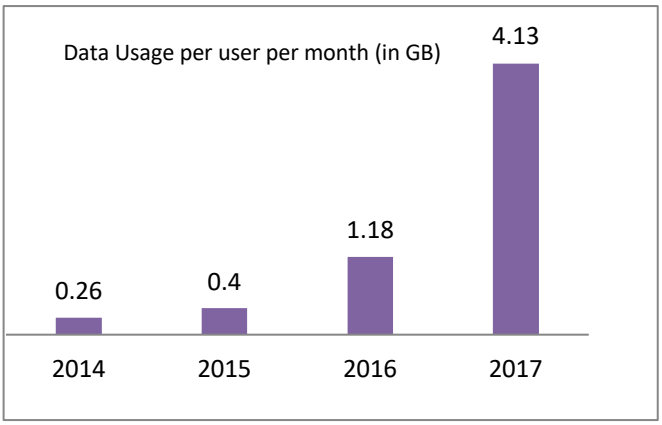
- **Large and Growing Market Opportunity for Personal Financing in India:**
  - » There is a c.US$350bn[1] personal credit opportunity in India by 2030 which banks and traditional lending institutions are not able to address due to large data asymmetries and challenges with credit assessment, distribution and collections.
  - » Alternate FinTech lenders are leveraging innovations in data analytics to address these issues and rapidly rising to meet the gap.
- **XYZ is shaping the Future of Consumer Lending in India:**
  - » XYZ is India's most preferred, app-only, digital specialist-lending platform for millennials. Using ground-breaking, AI-based technology to deliver fully-digitized credit solutions, XYZ has been downloaded over 100M+ times, has 40M active users with 900M data points feeding its AI engine.
  - » Leveraging its cutting-edge, patented Algorithms - XYZ is on track to become the leading one-stop shop delivering bespoke financial solutions to India's millennials as they go about meeting their everyday needs and aspirations.
  - » Offering small-ticket, high-velocity short-term loans, XYZ aspires to leverage its first-mover and leadership position to capture at least 44% of the $70-75Bn Short-Term Credit Market amongst 200 Mn salaried millennials with an estimated gross earning capacity of $2.5 Trillion by 2028.
- **Profitable Tech-Enabled Lending Business, Growing Rapidly:**
  - » XYZ was established in 2010 and has rapidly grown to c.US$52m in total AUM as of May, 2019 with US$180m being cumulatively lend till date. XYZ is currently disbursing INR92millions (US$13m) and collecting INR73millions (US$10m) per month,with total AUM growing at 41% per quarter. XYZ turned PAT positive in June-18 and expects to generate INR33millions (US$5m) of PAT in FY20.
- **Sizeable Customer Base with Multiple Channels to Source New Customers:**
  - » XYZ has built a substantial customer base with 720k+ active customers and over 100m app downloads. 67% of the customers are sourced through a referral program, 10% through social media content (which are not paid advertisements), 23% through channel partners.
  - » Wide channel network minimizes concentration risk and the Company is continuously adding select partners to increase client conversion ratio.
- **Growth Plan to Rapidly Scale the Business:**
  - » XYZgrew its total assets by 70% between Jul-18 and Jan-19 and expects to continue to rapidly scale its business in the coming years by increasing its market share of personal loans (including a large number of new to credit customers).

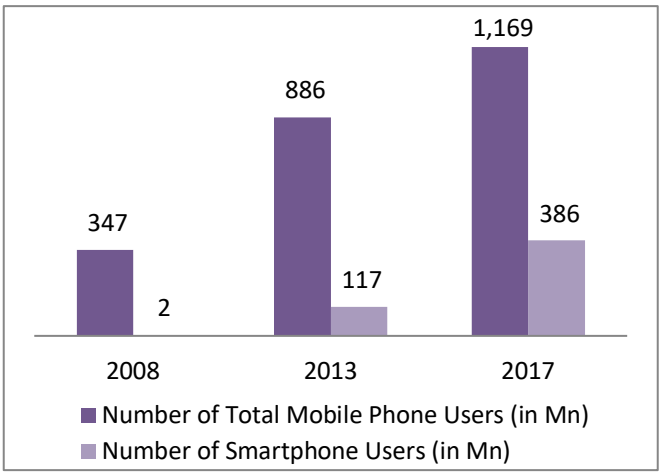
[1] *Source: Management estimates*

» Management has a plan to leverage the primary capital infusion to scale total AUM to US$160m by FY22.

## 2. BUSINESS ECOSYSTEM &TARGET MARKET

- **Key Drivers of Fintech**
  - » **Growing Consumer Demand:**
    - Increasing demand is backed by digitization, smartphone penetration and accessibility to financial services in India.
    - Significant increase in mobile phone penetration is connecting a vast majority of the population.




  - » **Growing Capital Availability**:
    - Access to angel funding, HNIs, PE/VC, government funds and strategic corporate investors has created a supportive ecosystem for Fintech.
    - India has attracted largest global financial sponsors and Fintech leaders over the last four years.

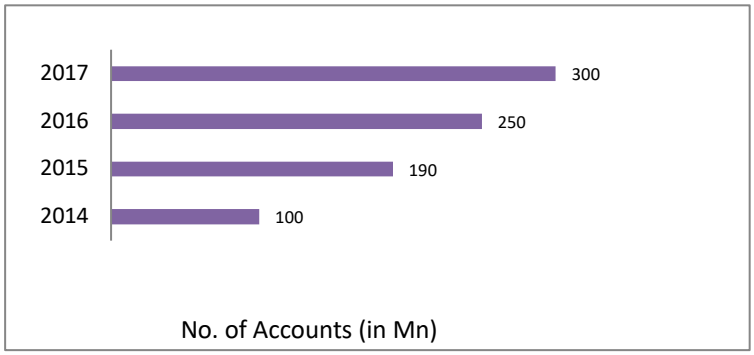
| Investors | Investments |
|---|---|
| **X** | Invested **US$60Mn** in India's largest Mobile Wallet Company |
| **Y** | Invested **US$73Mn** in India's largest InsuranceTech Company |
| **Z** | Invested **US$15Mn** in one of India's largest Processing Companies |
| **P** | Invested **US$90Mn** in India's largest Healthtech Company |

» **Growing Regulatory Support**

- The government is expediting a move towards a 'presence, paper and cash-less service delivery' system popularly known as 'India Stack'

| Function | Overview | What it covers |
|---|---|---|
| A Layer | Utilize power of data | Open PDS |
| B Layer | Transition of cashless economy – new approaches to credential checking | UPI |
| C Layer | Transactions performed in a paperless manner | DigiLocker |
| D Layer | Unique digital biometric identity and authentication from anywhere | AADHAAR |

- Government initiatives have created a large base of customers with linkage to basic banking infrastructure; unique opportunity to add multiple new tech driven financial services to this base.



- **Target Market**
  - » **Large and Growing Market Opportunity for Personal Financing in India**:
    - There is a c.US$350bn[2] personal credit opportunity in India by 2028 which banks and traditional lending institutions are not able to address due to large data asymmetries and challenges with credit assessment, distribution and collections.
    - Alternate FinTech lenders are leveraging innovations in data analytics to address these issues and rapidly rising to meet the gap.
  - » **Target Addressable Market:**
    - The Urban Tech Savvy have the potential for mass adoption of consumer credit taking the target addressable market to a total of 190mn.
    - XYZ is targeting 11-19% of the market share in order to take the leadership position in the financial product market in India.
  - » **Access to Credit:**
    - Credit in India is currently under-penetrated. Online platforms can leverage proprietary technology and breakthrough innovations to tap into this hugely underrepresented and underserved market.

## 3. PRODUCT& CUSTOMER PROFILE

**XYZ offers 4 products to customers and provides different credit limits for multiple loan durations up to 180 days:**

| Product | Loan Term | Loan Ticket Size | % of Total Disbursals[3] |
|---|---|---|---|
| ABC | 71 days | INR 3,000 | 1.6% |
| DEF | 99 days | INR 43,000 | 18.5% |
| GHI | 170 days | INR 70,000 | 56.3% |
| JKL | 1 Year | INR 300,000 | 23.6% |

**CORE FEATURES OF THE PRODUCT**

- **DISTRIBUTION:**
  - » XYZ relies on an easy-to-use app available on Android and Apple App Store for distribution of its products.
  - » On the customer end, the loan application process is totally digital and Turn Around Time (TAT) is 42 minutes for first time applications and <100 seconds for repeat applications.
- **UNDERWRITING:**
  - » The XYZretracts data from **social media (Facebook, LinkedIn, Google, etc.), mobile device and the loan application.**

[2]*Source: Management Estimates*
[3]*% of Total Disbursals for each product is as per the Management Flash for May, 2019*

- Using AI& ML driven platforms, retracted data is assessed and analyzed.
  - It is aAltScore which measures the trustworthiness of the customer on the basis of Social profile.
  - It uses the AI platform in order to accelerate the approval process for first time and repeat customers. Score is updated on monthly basis.
- Additional Underwriting checks include Credit Bureau Checks, Review of Documents, Employment Verification and Bank Analysis.

- **COLLECTION**
  - XYZ currently houses a collection team with 92 members in 5 divisions running its collection process and methodology:
    - Receivable Team: engages with the customers 8 days before the due date
    - Overdue Team (0-61 days past due date): engages in collection process
    - Overdue Intense Team (62-190 days past due date): engages in collection process
    - 3rd Party Agency (More than 200 days past due date date): Pan India
  - 80% 1st EMI Compliance, 89% Cumulative EMI Compliance. Target to keep EMI Non-compliance under 10% for mid-term.

**CUSTOMER PROFILE**

- XYZ targets millennials in the age group of 28-42 years.
- They require loan for their needs like medical emergency, travel, etc.
- CIBIL score of the customers in the range of 750 to 800

## 4. BUSINESS OVERVIEW

**REVENUE SOURCES**

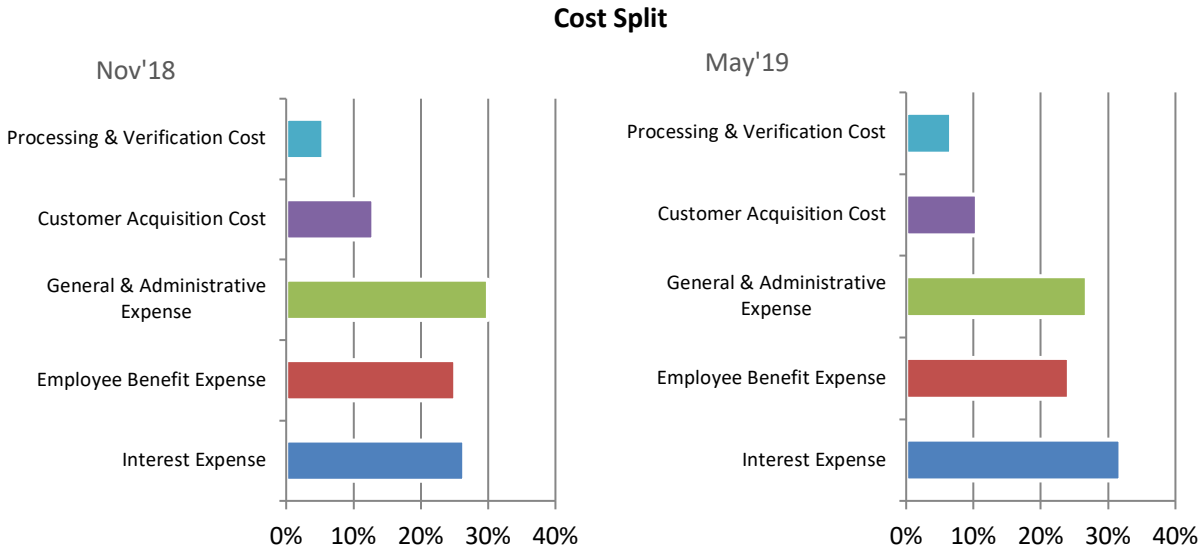
- **Interest Income**

| Product | Projected Interest Rates | Annualized Interest Rate |
|---|---|---|
| ABC | 1% per month | **12%** |
| DEF | 2% per month | **24%** |
| GHI | 3% per month | **36%** |
| JKL | 4% per month | **48%** |
| MNO | 5% per month | **60%** |

  - The Interest Rates are projected for a period Jun'18 onwards. The rates are expected to reduce as the customers and loan disbursals increase.

- **Processing Fee:** Processing Fee is charged on both new and repeat loan applications. However, repeat applications are charged a relatively lower processing fee due to already obtained KYC documents.

## COST STRUCTURE




- **Interest Cost:**
  Interest expense includes interest payments on:
  - » Inter-Company Debt @20% p.a
  - » Bank Borrowings @30% p.a
  - » Other Borrowings @40%p.a

- **Marketing/ Channel Partner/ SourcingCost:**
  XYZ positions its products on various channel partners to build a pipeline. These sourcing partners are paid on a lead-basis along with a fixed fee. Some of the channel partners include:
  - » AB Corporates
  - » BCart (now ceased to be a channel partner)
  - » Other digital channels

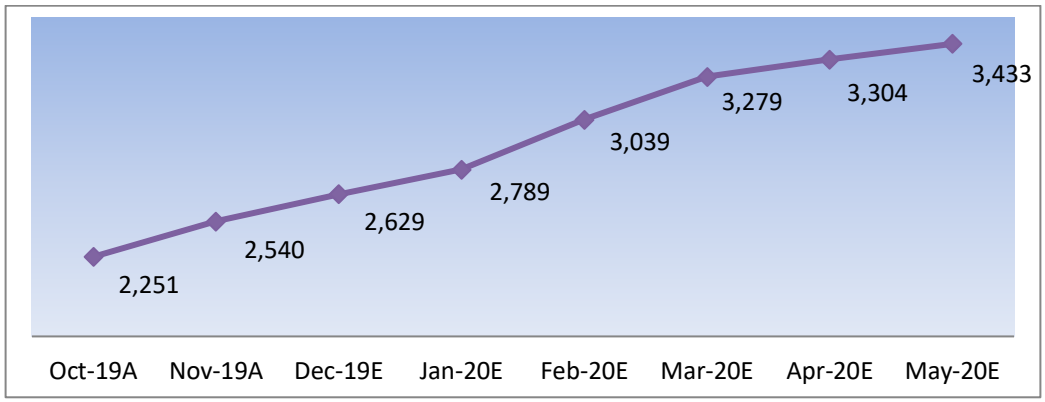
  *XYZ expects to partner with various online vendors piggybacking on the surge of mobile and internet usage in India. Some of the recently concluded partnerships include association with different companies.*

- **Branding & Advertising Cost:**
  - » XYZ focuses on branding and advertising through mediums like Public Relations, Digital Promotion.
  - » XYZ uses ATL and BTL Promotion in order to address the tech-savvy target market through messages and emails.
  - » Further, targeted opportunity-based marketing campaigns are considered like kiosks inBusiness Parks.

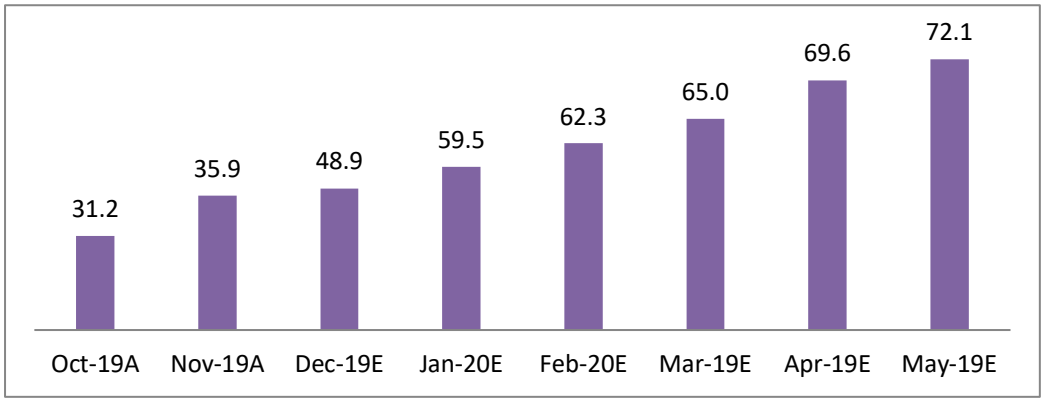
- **Processing/ Verification Cost:**
  - » **National Securities Depository Limited (NSDL)**: The per application cost is expected to grow at X% per annum.
  - » **Credit Information Bureau (India) Limited (CIBIL)**: In case, an applicant has a prior credit history, verification is carried out through CIBIL.
  - » **PQR**:
    - PQR is a technology data platform with the focus on financial data aggregation and analysis for credit assessment and personal finance.
    - It also works on other use-cases such as verifying pay slips and financial data of applicants.
    - XYZ uses PQR for verification purposes on case-by-case basis.
  - » **e-BCD**:
    - e-BCD rolled out by EFG Corporation of India is a payment system that allows lenders to automatically charge for EMIs, once verified and signed in by them.
    - e-BCD per application cost are projected to grow at X% per annum.
- **Employee Benefit Expenses:**
  - » XYZ houses the following departments:
    - Sales
    - Operations
    - Finance, HR, Admin & Legal
    - Collections
    - IT & Product Development
    - Customer Services
  - » In terms of Human Resources, XYZ has the largest concentration in **Sales, Collection and IT & Product Development teams**.
- **Depreciation and Amortization Expenses**: Leasehold Improvements, Office equipment's, Furniture & Fixtures, Motor Vehicles are depreciated at 20% p.a straight-line basis.

## 5. KEY PERFORMANCE INDICATORS

- **New Unique Users/ Loans Growth**

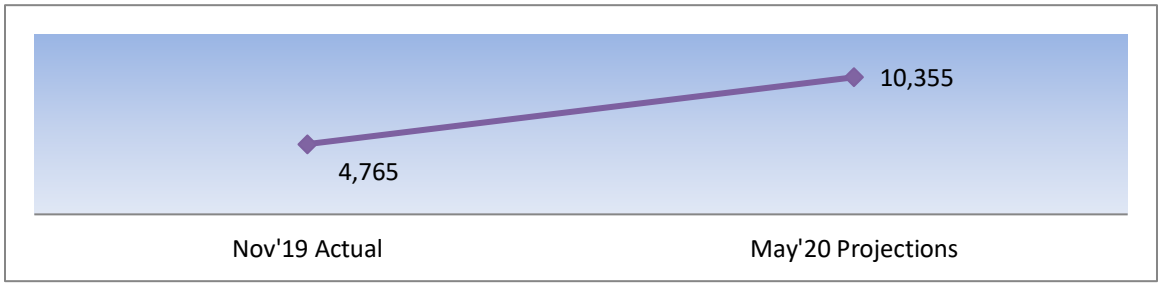



- **Monthly Disbursals Growth (in INR Mn)**




- **Customer Acquisition Cost (CAC)**
  - » Customer Acquisition Cost includes Branding & Advertising Expenses, Channel Partner Costs and Employee Benefit Expenses for the Sales team.
  - » Reduction in CAC:
    - Reduction in ATL/BTL promotion
    - Focusing on Digital Promotion and SEO/SEM
    - Reduction in per application cost of leads from AB Corporates due to increased traction from the platform and optimized distribution of the fixed fee

- **Lifetime Value of the Customer (LTV)**

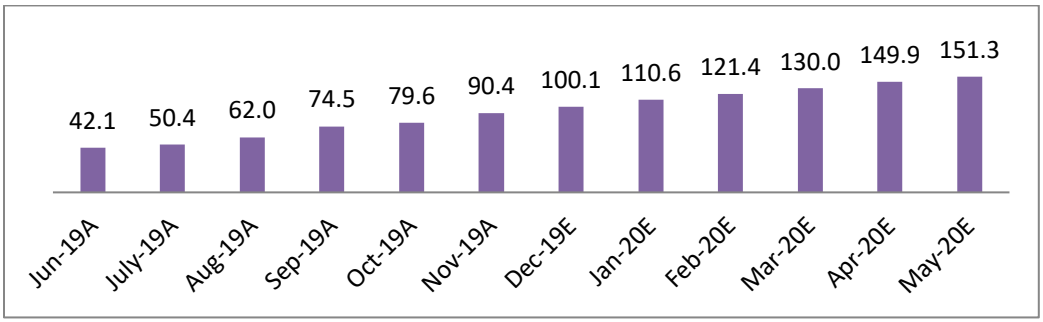



» A XYZ customer is expected to repeat 1.2345 times.

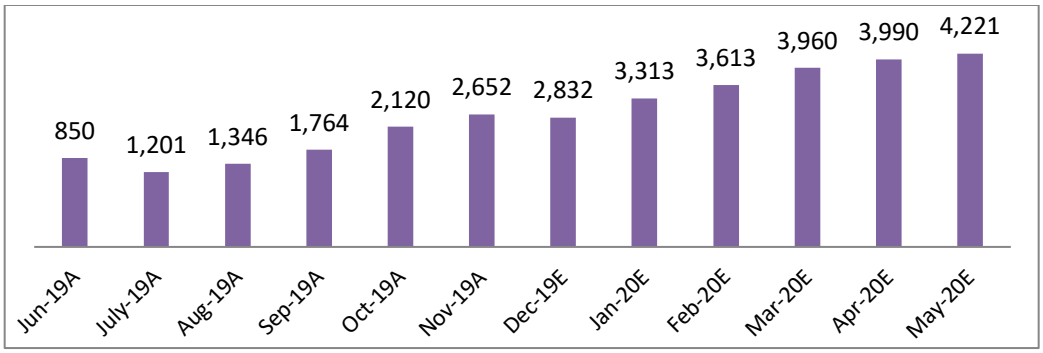
» The increase is expected to materialize on the back of increasing revenue to disbursements ratio.

- **Growth Indicators**

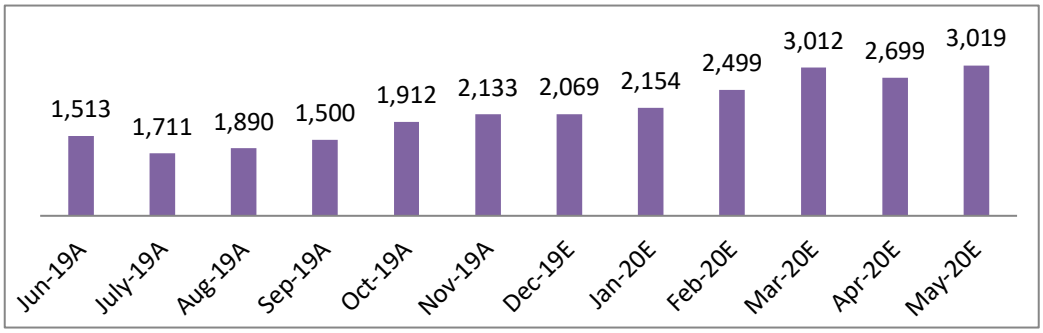
**Asset Under Management (AUM) (in INR Mn)**




**Revenue per loan disbursed (in INR)**

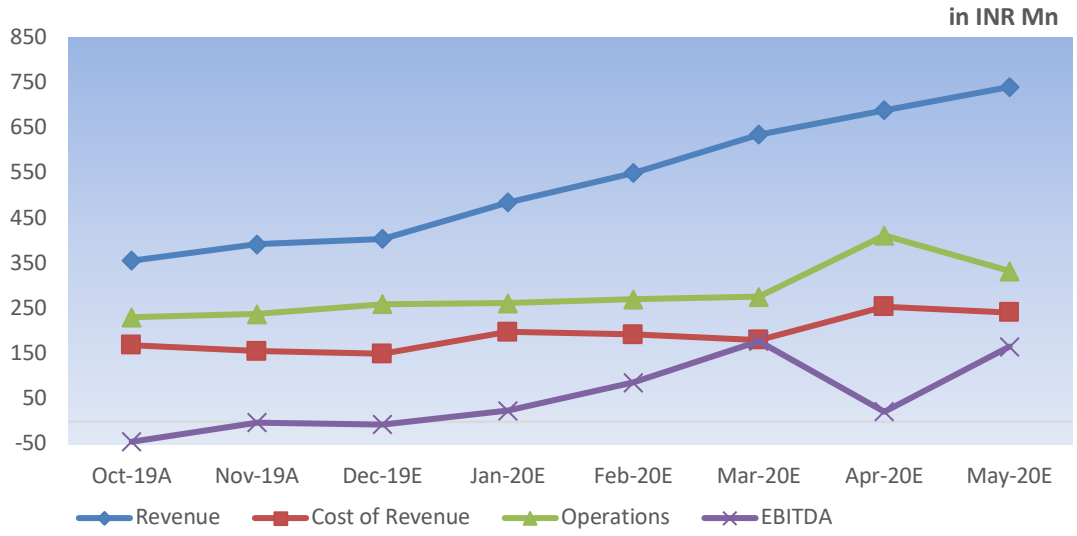



**Net Interest Income per loan disbursed (in INR)**

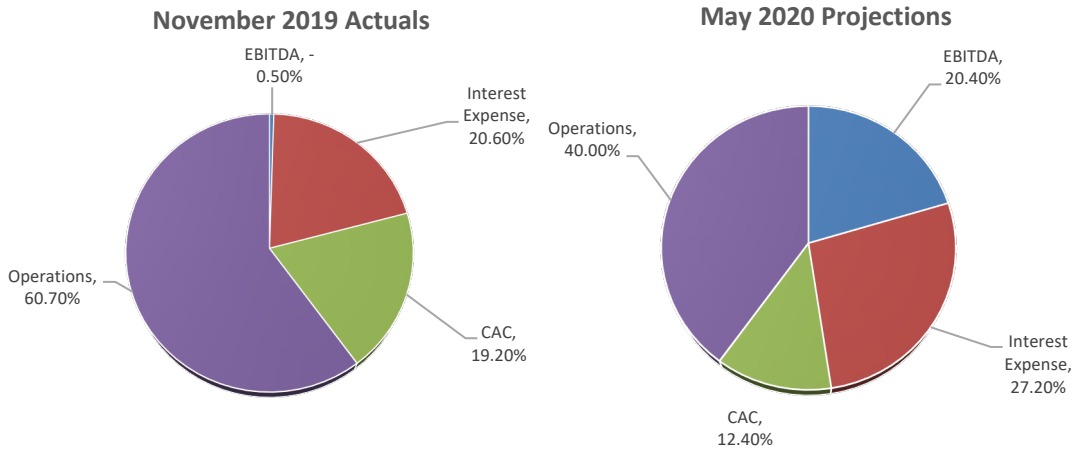


## 6. FINANCIAL

- **Financial Projections**




- **Financials Breakdown**



## 7. TEAM

**FOUNDER & CHAIRMAN**

**K Joseph**

Accomplished tech-entrepreneur with an established track record of building successful technology companies.Founder & Former Chairman/CEO of NYSE listed ABC Co., a leading voice recognition company that he pivoted from a start-up to until it was sold to PQR for over a Million Dollars in 2010.

**MANAGEMENT TEAM**

Ram Mohan, CEO

Marcus B, CFO

R James, CTO

## 8. COMPETITIVE LANDSCAPE

- Government initiatives and development in financial infrastructure has led to an increase in the credit demand in India.
- The credit demand in India is projected to be worth $4.41 Tn by 2042. The estimated growth rate in credit demand is 1.73% between FY17 and FY32.
- Between 2015 and Q1 2019, the total investment in Indian fintech startups was $10 Bn with a total deal count of 584. Out of the total funding, 26.4% ($2.64 Bn) was in lending tech startups.
- In Q3 2019, the total recorded funding in lending tech startups was $822 Mn which is 6.18x higher than the average quarterly funding in this sector which stands at $109 Mn.
- XYZcompetes with several well-funded startups like Business 1, Business 2, Business 3, Business 4, Business 5, and others, in an industry that represents a $6 trillion opportunity in the next twenty years, according to STU group.

**Business 1**

| Business Profile | |
|---|---|
| Target Audience | Business 1 offers loan solutions to salaried professionals. The platform has various loan products ranging from EMI-based loans to EMI-free loans to personal line of credit with an in-house NBFC platform that disburses loan directly. |
| Operations | 20 cities in India |
| Latest Funding (Venture Round) | US$ 8Mn |
| Funding Date | January, 2019 |
| Investors | XYZ Investors |
| Total Loans Disbursed (Mar, 2019) | USD 26Mn |
| Monthly Disbursal Rate (Jan, 2019) | USD 6Mn |
| Average Ticket Size (2019) | INR 2.8-3.0 lakh |

*Source: Public News Flows*

**Business 2**

| Business Profile | |
|---|---|
| Target Audience | Business 2 provides salary advances to professionals for an average tenure of 30 days upto 40% of the salary |
| Operations | 7 cities in India |
| Latest Funding (Series B) | US$ 6Mn |
| Funding Date | January, 2019 |
| Investors | XYZ Investors |
| Total Loans Disbursed (Apr, 2019) | USD190Mn |
| Monthly Disbursal Rate (Mar, 2019) | USD 23 Mn |
| Average Ticket Size (Jan, 2018) | USD456 |

*Source: Public News Flows*

**Business 3**

| Business Profile | |
|---|---|
| Target Audience | Business 3 disburses three types of loans - personal, education and home |
| Operations | 30+ cities in India |
| Latest Funding (Series A) | US$80Mn |
| Funding Date | April, 2018 |
| Investors | XYZ Investors |

*Source: Public News Flows*

**Business 4**

| Business Profile | |
|---|---|
| Target Audience | Business 4 issues collateral-free credit up to a limit of Rs 5 Lakh. Consumers can borrow anywhere between Rs 3,000 and Rs 5 Lakh and choose repayment options with regards to time, ranging from 2 to 36 months. |
| Operations | 100+ cities in India |
| Latest Funding (Seed) | US$12Mn |
| Funding Date | June, 2017 |
| Investors | XYZ Investors |
| Annual Credit Line (May, 2018) | USD7 Mn |
| Average Ticket Size (Apr, 2019) | USD 32000-42000 |

*Source: Public News Flows*

**Business 5**

| Business Profile | |
|---|---|
| Target Audience | Personal loans toProfessionals and Self Employed |
| Operations | 40+ cities in India |
| Latest Funding (Series B) | US$48Mn |
| Funding Date | July, 2017 |
| Investors | XYZ Investors |
| Total Loans Disbursed | USD 71Mn / 150,000 loans |
| Monthly Disbursal Rate (Jul, 2018) | USD 5 Mn |

*Source: Public News Flows*

## 9. INVESTMENT SUMMARY (COMPANY PROVIDED)

| HEADING | DESCRIPTION |
|---|---|
| **Fund Raise** | $100Mn<br>- Greenshoe Option of $50Mn |
| **Instrument** | Straight equity issuance up to 25.5% in the A. Co** |
| **Post-Money Valuation** | $885Mn (~4x FY19 audited book of $210Mn, ~2.25x current year's estimated book of $400Mn) |
| **Minimum Commitment** | $20Mn for Strategic Investors |
| **2026 Target AUM** | $1310Mn |
| **2026 Target P/B Multiple** | 2.9x (lower end of the market range, 3x-8x) |
| **Expected Post-Money** | $5430Mn |

| Valuation (2026) | |
|---|---|
| **Investment Value at Exit: 22.3% of 2026 Equity Value** | $610Mn |
| **Estimated MoIC** | 10x |
| **Estimated IRR** | 60% |
| Documented Commitment | On or before MM/DD/YYYY |
| Full Drawdown | On or before MM/DD/YYYY |

**FX Rate assumed at 1$= INR 70.0*

## 10. VALUATION ANALYSIS

- **Key Valuation Considerations**: NBFC lending business are typically valued on the basis of a price-to-book (P/B), with significant variation in valuation usually driven by a combination of the following factors – high growth, high RoAs (profitability) and low NPA levels.
- **Valuations in Precedent Transactions**:Emerging alternative lenders have recently been valued at a median P/B of 8.0-15.0x and traditional NBFCs are valued at a P/B of 8.0x – 15.0x. Below is a snapshot of key comparable transactions for alternative tech-enabled NBFCs; please refer to Appendix C for the complete list of transaction comparable.

| Date | Target | Deal Value (US$m) | P/B |
|---|---|---|---|
| Dec-17 | Target 1 | 37 | 8.0x |
| Aug-17 | Target 2 | 47 | 13.5x |
| Aug-17 | Target 3 | 57 | 15.3x |
| **Median** | | | **13.5x** |

- **Valuations of Publicly-Listed NBFCs**:
  - » Retail NBFCs have a wide trading range 6.4x-12x P/B, with a median P/B of 9.6x and median LTM P/E of 27x.
  - » Housing NBFCs trade at a median P/B of 6.8x and median LTM P/E of 20x.
  - » Across the cycle (over the last 10 years), listed NBFCs have traded at an average P/B multiple of 6.2x and a median P/E of 19x, with peak multiples of c.7x P/B achieved in mid-2019 and a trough of c.2x in March 2012.
  - » Taking a one standard deviation range indicates a trading range of 4.5x-8.8x P/B.
  - » **Valuation:**UVW has assumed a **valuation of 8.2x P/B**