

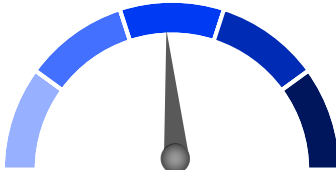


September 13, 2024

InCred Financial Services Limited: Rating assigned

Summary of rating action

InCred Financial Services Limited	Previous Score	Current Score	Rating Symbol	Rating Movement
ESG Impact Rating	-	57	Moderate	-

Environment	Social	Governance
		
E Score: 57	S Score: 71	G Score: 46
Moderate	Good	Moderate

Rationale

The ESG rating assigned to InCred Financial Services (InCred/ the company) reflects its current sustainability profile, emphasising an employee focused approach, early-stage green initiatives, and clear strategies for compliance and risk mitigation. Despite being at a nascent stage with respect to its sustainability disclosures and targets, the entity has a well-rounded ESG policy, which shows the organisation’s commitment to follow best sustainable practices. This is also evident from the initiatives taken by the company in this area, such as obtaining green building certification for one of its offices, securing good employee welfare measures, and creating a regulatory technology (reg-tech) system for compliance monitoring. However, the lack of public disclosure of InCred’s ESG data, the absence of a dedicated board level committee for monitoring its sustainability performance, etc., continue to be its shortcomings in the ESG space.

Being in a low emissions impact sector, its technology focused business model limits the overall environmental impact of InCred. The company has been assigned an environmental score of 57 (Moderate), which reflects the early stage of its sustainability journey. This score acknowledges the backing of a well-rounded ESG policy, and some positive actions like installation of LED lights and motion sensors, but the entity lacks a focused approach backed by accurate data to reduce its carbon footprint. The score also indicates that there is significant room for improvement as the company continues to develop and implement its sustainability initiatives. While InCred aspires to be a carbon neutral company, it does not track many of the major environmental indicators and neither does it have defined targets to reduce emissions, energy/ water consumption, or waste generation.

The assigned social score of 71 (Good) reflects InCred’s focus in ensuring employee well-being, complying with human rights standards, maintaining customer satisfaction, and making positive contributions to the community. All its permanent employees are covered under a group insurance policy, which includes benefits such as health, term life and personal accident insurances, with provisions for adoption leaves in addition to maternity and paternity leaves. ICRA ESG also notes that the company’s health, safety and human rights policies cover its value chain partners and suppliers; however, it lacks active monitoring. In addition, InCred’s robust internal IT infrastructure has enabled it to maintain satisfactory data privacy and cyber security levels, aiding its business sustainability. Further, there have not been any instances of data privacy breaches/ cyber security lapses in the recent past.

Being a non-banking financial company (NBFC) with a portfolio of products catering to rural/ semi-urban sectors, InCred plays a crucial role in extending financial services to the under-served and the unbanked sections of the country. It is expanding its operations in rural and semi-urban regions by opening new offices and offering micro loans to support the livelihood of micro enterprises. Further, it is working on developing new products along with a dedicated IT infrastructure to help rural communities access credit. Through its initiatives, the entity is contributing to community upliftment and creation of employment opportunities for the local youth. InCred's Corporate Social Responsibility (CSR) programme is progressing with the expectation of expanding its coverage from FY2025, with plans for girl child education and women empowerment projects in far flung areas of the country, which will further strengthen its social impact.

InCred's Governance score of 46 favourably incorporates the presence of a dedicated reg-tech system. The entity has been an early adopter of a dedicated reg-tech system, which has been comprehensively implemented and strengthens its internal controls. This apart the score gains from InCred's board structure and performance parameters. These include good board attendance, vast experience of the members and healthy women participation. The score, however, is tempered by the absence of a dedicated sustainability/ESG committee within the organisation, lack of assurance on sustainability parameters, and lack of targets for combating climate change. Currently, the ESG-related initiatives of the entity are being implemented at a department level with the support of the founding promoter. These weaknesses are primarily because of the early stage of organisational growth especially with respect to the sustainability practices.

The overall ESG score of 57 (Moderate) indicates that InCred is in the early stages of its ESG journey and is yet to adopt comprehensive sustainability practices. Sensitivity areas include the tracking of environmental data, improving diversity among its workforce including senior management, and making concrete commitments to reduce negative impacts. Addressing these areas, along with maintaining its current performance levels across parameters, will be crucial in determining its future score movements.

Key Rating Drivers

Strengths

Good employee benefits and coverage – All InCred employees enjoy benefits in the form of comprehensive insurance coverage and favourable leave policies, including adequate maternity and paternity benefits. ICRA ESG notes that InCred suffered an attrition of ~30% in FY2024, which is, however, in line with industry trends. The company has a good proportion of tenured employees and makes efforts to offer career progression opportunities.

Satisfactory human rights policies and practices – The company has a dedicated framework for handling cases of workplace discrimination and sexual harassment, in addition to regular training on human rights practices.

Creating social impact through financial inclusion – Being an NBFC with a focus on increasing its rural footprint, the entity has been working on enhancing its portfolio to include products for the underbanked and under-served regions of the country, thus contributing to financial inclusion. Moreover, the entity is transitioning to a web-based model to make its portfolio accessible to rural areas, further supported by regular optimisations such as regional language support, dedicated helpdesk, and optimisation for poor internet connectivity, among others.

Low emissions and energy intensity of business – InCred is primarily a financial services provider. Considering the nature of its business, its inherent Scope 1, Scope 2 and air emission impact is low. The energy intensity of its business remains modest, in line with its domestic peers. Further, the company has been implementing green initiatives like procuring green certified assets and a green building certification for its office premise. However, its energy consumption remains dependent on the national grid, and it does not avail any renewable energy. Similarly, although the company's e-waste management is adequate, initiatives for reducing paper consumption are absent.

Presence of a reg-tech system – The entity has implemented a dedicated reg-tech system to ensure timely monitoring and evidencing for regulatory compliances, which supports its internal control and risk management systems. The company's key functions, including legal, compliance, human resources and administration, are onboarded on the platform. This has enabled it to streamline its processes and strengthen its internal controls. Moreover, focus on IT systems for business operations, including cybersecurity and data privacy, has helped InCred to avoid any major security lapses or data leaks.

Weaknesses

Lack of tracking mechanism, particularly for environmental parameters – The company is yet to commence tracking its overall environmental impact on quantitative terms, even though it has a policy that endeavours to minimise such impact. Tracking and disclosure of this data will strengthen its ability to identify gaps and implement its policy from an environment perspective.

Nascent stage of sustainability commitment – Being at a nascent stage of its sustainability initiative, the company has not set any quantitative targets for the standard ESG parameters, and neither does it have a dedicated sustainable finance framework, as witnessed in other large NBFCs in its segment. Consequently, at present, the entity does not have a dedicated sustainability or ESG committee for sustainability-related decisions. Moreover, assurance on sustainability related policy and data is absent. Currently, the ESG-related initiatives of the entity are being implemented at a department level with the support of the founding promoter.

Moderate workforce diversity – There is a meritocratic selection process followed during hiring. InCred does not have women among its key management personnel (KMP); though there is a good representation at the board level. Women's participation across the company remains moderate at 22%, with an unfavorable female-to-male wage gap at 0.69 times. The wage gap is primarily due to the absence of women employees in senior management, and it improves significantly at middle management levels and below. The company is making efforts to improve diversity at senior management levels, which could also favourably impact the wage gap going forward.

Rating sensitivities

Positive factors – ICRA ESG could upgrade the rating/score if the company starts tracking its environmental impact and implements policies towards emission reduction, renewable energy adoption, water management and waste accounting, among other initiatives. Moreover, setting targets for standard ESG parameters would be favourable for driving the company's ESG performance upward.

Negative factors – ICRA ESG could downgrade the rating/score in case of a significant rise in attrition rate, instances of severe fines and penalties levied by regulatory bodies or significant litigation/s, or any adverse outcomes, which could impact its operations and value chain.

Analytical Approach

Analytical Approach	Comments
Rating methodology	ESG Impact Rating Methodology
Rating scale	ESG Rating Scale
Last review date	NA
Data Availability	Average
Rating boundaries	For arriving at the rating, ICRA ESG has considered the consolidated financial statements of the company including its two subsidiaries having modest levels of operations. ICRA ESG has further taken into consideration the ESG relevant information shared by InCred along with discussions with its key function heads during multiple management meetings.

About the company

InCred Financial Services Limited (earlier known as KKR India Financial Services Limited, or KKR India) is an NBFC, registered with the Reserve Bank of India. InCred was merged with KKR India in July 2022, by becoming a wholly owned subsidiary of InCred Holdings Limited (IHL), which was earlier known as KKR Capital Markets Private Limited, the holding company of KKR India. The entity formed from the merger was subsequently renamed as InCred Financial Services Limited. InCred's portfolio consists of retail loans in the form of personal loans, education loans, school financing, enterprise loans, loan against property (LAP), escrow-backed loans, etc. KKR & Consortium holds a stake of ~30% in the holding company, IHL, followed by the promoter, Mr. Bhupinder Singh (~19% stake), and the Manipal Group (~11%). InCred recently inaugurated its 100th branch at Mumbai in July 2024, taking its overall employee strength to ~1,700, as of March 31, 2024. InCred is a technology driven entity with a focus on client onboarding through digital initiatives. As of March 31, 2024, InCred's Assets Under Management (AUM) stood at Rs. 9,039 crore, including a co-lending book of Rs. 1,590 crore. It reported a profit after tax of Rs. 315 crore with a net interest margin of 10.1% over a net worth of Rs. 3,320 crore. The capital base has been supported by the merger with KKR India, apart from regular capital infusions.

InCred's business has led to an inherent social and economic development, leading to a favourable impact. A large part of its business beneficiaries come from the rural and semi-urban regions of the country. InCred had approved more than \$1 billion in education loans, covering 585 universities across 25 countries by FY2023. In the process, more than 5,500 student borrowers have gone on to pursue higher education, with ~99.5% of such students completing their courses and finding gainful employment. Further, through its micro, small and medium enterprise loan product, InCred's business has facilitated the growth of this sector.

Key ESG Indicators

Parameters	Unit	FY2024
Environment indicators		
Energy intensity	MJ/ Rs. crore	2,505.9
Renewable energy consumption	%	0.0%
Water consumption intensity	m ³ / Rs. crore	NT
Waste generation intensity	tonnes/ Rs. crore	0.0
Social indicators		
Employee turnover	%	29.8%
POSH complaints reported & resolved	Number	1
Income inequality ratio	Ratio	125:1
CSR inhouse volunteers	Yes/No	Yes
Governance indicators		
Presence of reg-tech system	Yes/No	Yes
% of women in BOD	%	30.0%
% of women in KMP	%	0.0%
Average attendance in board meetings	%	90.0%

Source: Company, ICRA ESG's Analysis; NT – Not Tracked

Common Directors (if any): None

Source of Information

While assigning the ratings, ICRA ESG has considered the annual reports of the Company along with other policies, additional information and comments provided by the Company.

Status of non-cooperation with previous ERP: Not applicable

Rating history for past three years

S. No.	Parameter	Current Rating		Previous Rating	
		Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
		September 13, 2024	-	-	-
1	ESG Impact Rating	57, Moderate	-	-	-

Source: ICRA ESG

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