

## CRED: Standing at a crossroad?

Shubhangi Jain<sup>1</sup>, Nishchay Saxena<sup>2</sup>  
<sup>1,2</sup>Zakir Hussain Delhi College, New Delhi

**Abstract: Dreamplug Technologies, a fintech start-up based out of Bengaluru, India launched an app known as Cred which aimed to revolutionize the credit card bill payments landscape in India. Mr. Kunal Shah, the CEO, and MD of CRED built this app to reward those who paid their credit card bills on time. But things became scanty and the top brass of Cred started looking for ways to stretch its legs in the area of profitability. As Mr. Shah found himself in a precarious situation wherein on one side he was losing his customers' faith and on the other side, investors were seeking profitability. Shah needed to decide on how CRED should go and meet its plan of profitability, which, in hindsight still looked like a far distant dream to achieve. But the time is now & the management needs to decide how?**

### Cred Background:

Shah founded Cred in 2018 and had previously built a successful fintech start-up known as "Freecharge", which was sold to Axis Bank in 2015. After the success of Freecharge, Shah spent a lot of time traveling, and studying developed nations, and the one thing that caught his attention was the government-backed system in which people placed a high level of trust. As he quickly gained an eye through the different models of the market in which people availed self-service, be it petrol pumps or supermarkets, this made him understand the benefits of a frictionless environment. An environment that creates financial progress for its citizens. On his way back to India, Shah looked at it as an opportunity and discovered that there are over 30 hidden charges that can be imposed on a person if a person pays a single rupee less than the bill amount.

*He understood the fact that the system took on-time payers for granted, and there's an urgent need to create a system that rewards trustworthy and creditworthy individuals who pay on time.*

In 2018, Cred was launched as an invite-only platform for people having high credit scores, with a motive to help them find and explore different ways to reduce costs and get better interest rates on loans, insurance, and investment products. The platform strived to be

the go-to credit card payment aggregator for users who hold multiple credit cards and to reward them for paying credit card bills on time.

The Bengaluru-based start-up with six different products at its disposal and a market with nearly 25% of the credit card population in the country, made greater strides in terms of products, customers, and valuation.

In late 2018, a seed round of \$30 million was raised by Shah, among the largest in the Indian start-up ecosystem at that time. Shah knew that if he wanted to capture the data of the top 5- 10% riches of this country, he got to revolutionize the credit card payments landscape. Following this, Shah further raised \$120 million in a Series A round from investors such as Sequoia Capital, Ribbit Capital, and Apoletto Asia, increasing the valuation to \$450-500 million. Finally, the startup raised a further \$80 million from DST Global and existing investors. It took Shah two years to push a Credit card bill payments company's valuation from \$200 million to \$800 million. With six different products at its disposal, here is a brief overview of Cred's offerings.

### Products Division- CRED Cash

One of the fastest, most seamless, and fully digital way to get credit, without the tedious application and verification processes typically associated with loans and at an interest rate of one-third of typical credit card interest charges.

### CRED Payments

CRED provided users with a unified payment interface through which they can pay their Credit card and other bills on time and receive rewards in the form of CRED coins.

### CRED Stash

The Cred Stash instant Credit line offered its customers easy access to Credit at a rate that was equivalent to one-third of the usual rates charged by Credit cards. The line had a credit limit of 5mn INR.

### CRED RentPay

RentPay was another product that allowed users to pay recurring household expenses and rent payments. Cred charged the client a fee of roughly 1% to 1.5% of the alternative sum.

#### CRED Mint

Cred launched its peer-to-peer lending product known as Cred Mint, as part of its partnership with Liquiloans, a P2P non-banking financial corporation (NBFC) licensed by the RBI, CRED mint operated with the idea of revolutionizing the lending system by offering loans to high-profile individuals at an inflation-beating rate.

#### CRED Store

Through its platform, CRED partnered with companies in health, travel, e-commerce, and so on, enabling users to spend the CRED coins they earn to purchase these products and services. CRED Store, an eCommerce platform exclusive to CRED members, was piloted in 2020.

(See Exhibit 1)

#### Revenue Stream of CRED

With Cred's diverse and expanded product offerings, its revenues was mostly generated at an intersection of advertisements, cred coins, extending loans, transaction fees, and user data.

Cred charged an upfront amount from the brands who wished to list themselves up on the CRED Store, as the brands get to advertise in front of the most disciplined credit card users. Meanwhile, Cred RentPay charged a transaction fee of 1%-1.5% depending on users' credit card network. Apart from that, even Cred Coins opened a stream for revenue generation as Cred received a fee every time a customer spent cred coins, with Cred Stash earning interest on customers' loans. Some estimates even said that Cred made use of the user-generated data which is then shared with the financial institutions in exchange for heavy sum amounts that further acted as a major source of revenue for them.

#### Cred Financials –

For the fiscal year ending March 31, 2021 (FY21), Dreamplug Technologies, which operated fintech startup Cred, reported revenue of Rs 950.55 million. FY20 saw a revenue of Rs 180.14 million. On a consolidated basis, the company reported a loss of Rs 5230.8 million, compared to Rs 3610.1 million a year ago. Whereas, the revenue from operations increased to Rs 880.6 million from approximately Rs 5.2

million. A loss of Rs 1340.7 million was attributed to employee expenses in FY21. Whereas, In FY20, the company spent Rs 720.8 million on employee expenses. (See Exhibit 2 & 3)

#### Mingling cred's core business-

A members' only platform aimed at rewarding users with cashback and eye tempting prizes for paying their credit card bills on time now seemed confusing to its users. But why?

The platform became so crowded with its products, services, and games with cashback that the company's primary offering of Cred Coins began losing its charm. Cred's core offering which was redeemable Cred Coins made no longer sense to the platform users as users started showing apathy on social media platforms.

Prior to the launch of Cred, most credit-card bills were paid on standing instructions and earned nothing. For paying credit card bills, customers did not receive any rewards. However, this landscape was changed with the launch of Cred, as Cred Coins were awarded to people who paid their credit card bills on time.

But now it seemed as if Cred had a different goal than it set out to achieve when it was inception. Cred Coins were being awarded to customers as a reward that could be redeemed at both offline and online stores. However, with time, they lost their value, particularly at offline merchants. Since the advent of Cred coins, customers accrued lakhs of coins that can only be redeemed by playing games, which offered tiny discounts, not available on other e-commerce platforms.

#### The road to becoming a financial super-app -

A SuperApp offers various services or, in simple words can be called an umbrella application for various day-to-day use cases. At the beginning of its helm, Cred was the only platform catering to credit card users to enable on-time credit card bill payments & reward them. They held bragging rights and an air of exclusivity around their platform. However, the situation in question turned upside down rather quickly.

Cred was now looking for ways to expand its business and increase its penetration by integrating different financial services into its platform. Using Cred's Super app, users were able to perform and execute day-to-day financial activities such as paying phone bills,

paying rent charges, charging devices, and paying education fees on one single platform accessible from anywhere at any time.

*“With big TV marketing and Cred bounty games, it seemed to target low-value customers. They would have been a better fit for wealth management, but all those are crowded markets, and all the fintech players are trying hard to get a foothold,” said a senior executive with a leading technology company.*

Taking a pie from banks business too –

The cult of Cred had sent jitters to the legacy banks, as it built solid partnerships with the banking network and leveraged those partnerships to negotiate with other banks to get a better deal. Moreover, since Cred had gained prominence among premium customers in one of the fastest-growing economies in the world, therefore it became, even more, easier for them to tilt on one side, and banks no doubt lost business on that part.

With the launch of Cred Stash and Cred Mint, which offered its members loans at much lower rates, nearly one-third of the banks, banks feared, that Cred might even launch a credit card but that move was likely to be considered anti-competitive. While Kunal said that we partnered with banks rather than compete with them, the claims were looking tall. As they were able to grow their loan book exponentially.

*“If it focused too much on obtaining more customers or making loans to existing users, it will lose its cool. There had already been some losses. Lending was not that cool, and you'll be labeled a lending fintech, or worse, a bank”, warned a fintech expert.*

#### Competitive Landscape

The market is fierce, and no doubt some of the well-known super apps around the world in this gameplay are AliPay (China), Gojek (Indonesia), Grab (Southeast Asia), Zalo (Vietnam), Paytm (India), and Mercado Libre (Latin America). These apps began as single service apps with payment integration, but as customer demands grew, they began integrating a multitude of other services. In addition to offering a seamless payment experience, a wallet function within the app was also critical for collecting accurate data about transactions. When developing an effective growth strategy, this information was invaluable. These super apps were not only becoming popular but also gained a wide foothold across various industries.

Jack of all trades but master of none

Cred had been trying all sorts of measures to grow its foothold of users sustainably by launching its new offerings like Cred Stash, Cred RentPay, Cred Store, and Cred Mint, but the picture somehow didn't align with the goal of turning profitable. So, it might be a correct statement to say that Cred was now potentially standing at crossroads.

If Cred focused on its core offering which was redeemable Cred Coins and the USP on which it was established, then there are potential upsides that can act as a catalyst to grow its current line of business and Cred might be able to suffice the interest of various stakeholders.

Whereas, if Cred goes the other way round and decided to invest in other segments, the chances were very slim for them. With its existing set of customers, which are HNI'S and people with a credit score of above 750, a shift in the audience may leave a vague message to its existing users, creating an ambiguous image in the market.

While Cred Stash and Mint are leaving Cred with a good amount of interest as a revenue stream and drew customers toward it with easy credits. RentPay further provided Cred with a client fee of roughly 1% to 1.5% of the alternative sum.

However, Cred's bill-and-rent-payment vertical had faced intense competition, and with the declining value of its USP, Cred Coins, it suggested no evidence that it will be able to retain customers. Moreover, as the company's e-commerce platform was used for launching new products at hefty discounts and discovering new brands, mainly consisting of curated electronic products, grooming products, and food items, once the customer becomes accustomed to the product they move to Amazon or Flipkart.

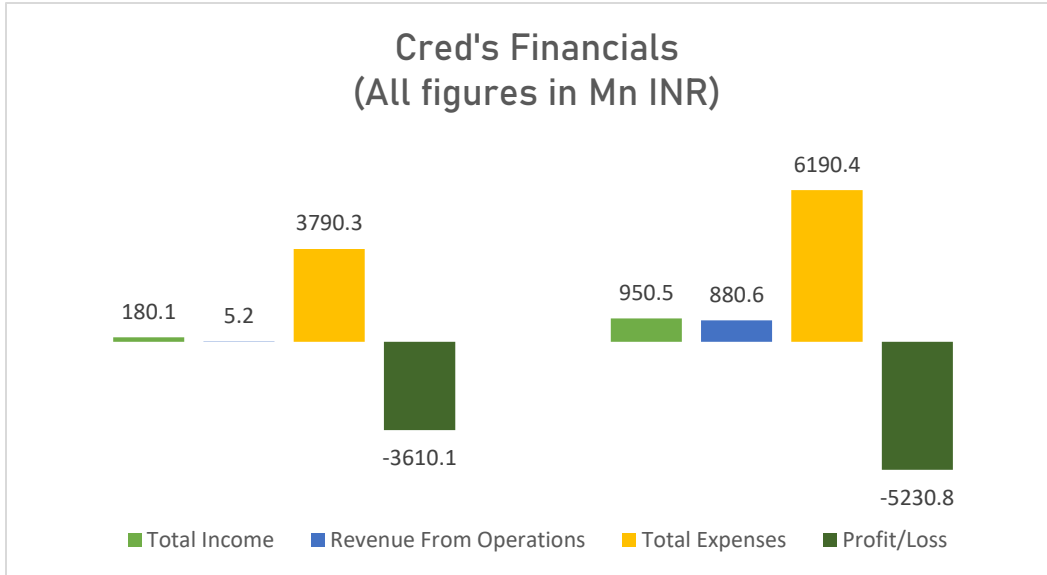
Moreover, Cred might not be even able to perform the function of brand discovery once it onboarded more brands. This impulse purchase model can't be scaled, and thus leaves the management in a dilemma.

Also lately, messages from Cred have been confusing, and their advertisements have lost their novelty value. This created the need to think about what it stands for to its consumers and decide on its path to profitability. In light of investors eyeing the same pie of the business, it was necessary to determine how CRED should proceed and meet its profitability goals?

Exhibit 1

Total number of Credit Card Users in India	75 Million
Growth rate of Credit Cards	22% per year
Number of Cred Users	9 million
No of Transaction Cred processes	25 million
Cred's UPI transactional worth	INR 160 Bn+
Source- RBI, NPCI, Cred	

Exhibit 2



Source- Registrar of Companies

Exhibit 3

	FY21	FY20
EBITDA Margin	-538.3%	-1966.2%
Expenses/ ₹ of Op Revenue	₹7	₹729.3
ROCE	-70.0%	-56.6%
Source - Fintrackr		