April 11, 2022

NeoGrowth Credit Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Lines	64.77	64.77	[ICRA]BBB (Negative); reaffirmed
Non-convertible Debenture Programme	140.00	140.00	[ICRA]BBB (Negative); reaffirmed
Total	**204.77**	**204.77**	

Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed the long-term rating for NeoGrowth Credit Private Limited's (NCPL) non-convertible debenture programme and long-term bank lines at [ICRA]BBB. The outlook remains Negative.

The rating and outlook factor in the company's scale of operations and the capital support from existing shareholders. ICRA also notes the company's diverse funding mix, with funds raised through overseas investors, in addition to loans from non-banking financial companies (NBFCs) and banks. NCPL's ability to profitably grow the business while keeping the gearing within limits and improving the asset quality will be a key monitorable.

The rating factors in the company's strong investor profile and the timely capital support from existing shareholders. The rating also considers the daily repayment schedule of the company's loan products (which results in better monitoring of the repayment performance), its efficient internal controls, and robust management information system (MIS) and risk management systems.

The rating, however, remains constrained by NCPL's deteriorating asset quality, limited track record, its non-traditional underwriting model in the Indian market and the risks associated with an unsecured portfolio. The asset quality has deteriorated sharply with the onset of the Covid-19 pandemic with the gross non-performing advances (GNPA) ratio, including write-offs, increasing to 18.5% as on February 28, 2022 (compared to pre-pandemic level of 7.70% in FY2020).

ICRA does note the reduction in the restructured book since FY2021. ICRA notes that the shorter tenure and daily repayment structure of the loans, coupled with the transition to the more objective scorecard-based credit appraisal process, partly mitigate the risks associated with unsecured lending. However, NCPL's evolving processes and systems are yet to be adequately tested over an economic cycle. While the company's focus on the largely untapped small and medium-sized retailers is likely to support its yield in the near to medium term, its ability to maintain the asset quality and register good quality growth would be critical for its profitability going forward.

Key rating drivers and their description

Credit strengths

Adequate liquidity and relatively diverse sources of funding – The company has raised funds from a diverse set of lenders including overseas lenders and multilateral agencies. It had managed to raise funding from 11 lenders in FY2022 at an average cost of 12-13%. The average tenor of these borrowings was 18-24 months. While the borrowings are long term in nature, the loans are of a relatively shorter tenure, thereby resulting in adequate liquidity surplus in the shorter term.

Credit challenges

Sharp deterioration in asset quality indicators – NCPL's GNPAs deteriorated sharply to 13.1% as on December 31, 2021 (6.2% as on March 31, 2021) and increased further to 13.6% as on February 28, 2022. The 90+ days past due (dpd) stood at 10.2% as on February 28, 2022 against 4.1% as on March 31, 2021. The company had higher write-offs at Rs. 75 crore, including the written-off accounts from the restructured book, in FY2022 (translating to GNPA, including write-offs, of 18.5% as on February 28, 2022 compared to 7.7% in FY2020). The company has liberalised its write-off policy to 240+dpd from 90+dpd for the restructured book. The restructured book saw an improvement as it shrunk to 16.8% (Rs. 260 crore) as on February 28, 2022 from 31% (Rs. 408 crore) as on March 31, 2021. The collection efficiency (CE) for the restructured book stood at 68% as on February 28, 2022. The movement in the asset quality will be a key monitorable in the upcoming months.

Reporting losses and increasing gearing levels – ICRA notes that the company was able to post profits only in FY2017 (profit after tax (PAT) of Rs. 5.73 crore) in the last five years. NCPL's loss increased to Rs. 46 crore in 9M FY2022 from the net loss of Rs. 30 crore in FY2021 mainly due to higher credit costs. The total credit cost was Rs. 131 crore in 9M FY2022, including write-offs of Rs. 65 crore. NCPL's gearing level increased to 4.22 times as on December 31, 2021 (considering compulsory convertible debenture (CCDs) as a part of debt; gearing would have been 3.26 times if the CCDs are converted to equity) from 3.70 times as on March 31, 2021. The operating efficiency improved with the cost-to-income ratio improving to 55.32% in 9M FY2022 (58.54% in FY2021) from 76.91% in FY2019. NCPL's ability to maintain the net interest margin (NIM), contain the credit costs and operate profitably will be an important rating consideration going forward.

Capital levels declined amid losses – NCPL's net worth had declined to Rs. 294 crore as of December 31, 2021. While the capital adequacy ratio (CAR) remained adequate at 24.4% as of December 2021, the Tier I ratio declined to 18.4% (25.0% in March 2020). The company had raised CCDs of Rs. 66.2 crore in September 2021 and is in process of raising an additional Rs. 50 crore by Q1FY2022. The reduction in the net worth has also resulted in an increase in the gearing and solvency levels (net NPA/net worth increased to 23.5% as of December 2021 from 2.6% as of March 2020). NCPL will need to raise additional capital to fund its growth plans for FY2023 and FY2024. The rating will be sensitive to additional rounds of capital raising for funding its growth plans.

Liquidity position: Adequate

NCPL's liquidity profile is adequate. As on February 28, 2022, the company had Rs. 103.6 crore of cash and liquid investments, including unutilised bank lines of Rs. 17 crore. To support its liquidity requirement and disbursals for the next 6 months, NCPL has already raised debt worth Rs. 80 crore and Rs. 130 crore in February 2022 and March 2022, respectively. NCPL collected around Rs. 133 crore in March and expects to achieve collections of ~Rs. 270 crore in April 2022 and May 2022. The company has repayment obligations of Rs. 401 crore (principal + interest) and operating expenses of Rs. 84 crore till August 2022. It did not have any cumulative mismatches in the less-than-1-year tenor in the December 2021 structural liquidity statement (SLS) and asset liability match statement.

Rating sensitivities

Positive factors – ICRA could revise the outlook if the company reports an improvement in its operating performance and asset quality while maintaining good capitalisation and liquidity levels.

Negative factors – ICRA could revise the rating if there is a continued deterioration in the asset quality, leading to GNPA + write-offs/gross loan book of more than 15% on a sustained basis, or if the leverage exceeds 4.0 times or if there is a sizeable weakening in the liquidity and earnings profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Non-Banking Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	Standalone

About the company

NeoGrowth Credit Private Limited (NCPL) is a non-deposit taking and systematically important NBFC, which started operations in FY2013. The company is promoted by Mr. Dhruv Khaitan and Mr. Piyush Khaitan, and its investors include Omidyar Network, Aspada Investment Advisors, Khosla Impact Fund, Frontier Investments Group (Accion), West Bridge Crossover Fund and IIFL Seed Ventures Fund. Prior to setting up NCPL, the promoters had founded and managed Venture Infotek, which provided end-to-end card payment processing solutions for banks that issue credit cards and those with whom the merchants have point-of-sales terminals. The promoters divested their stake in the company in 2010.

In FY2021, NCPL posted a loss of Rs. 30 crore on a total asset base of Rs. 1,715 crore compared to a loss of Rs. 3 crore on a total asset base of Rs. 1,507 crore in FY2020. The losses increased to Rs. 46 crore in 9M FY2022 on a total asset base of Rs. 1,594 crore mainly due to the poor asset quality and high credit cost.

Key financial indicators

NCPL	FY2019	FY2020	FY2021	9M FY2022
Total income (Rs. crore)#	302	337	333	272
Profit after tax (Rs. crore)	-21	-3	-30	-46
Net worth (Rs. crore)	385	380	352	294*
Loan book (Rs. crore)	1,049	1,352	1,323	1,494
Total managed assets (Rs. crore)	1,222	1,507	1,715	1,594
Return on managed assets (%)	-1.8%	-0.2%	-1.9%	-3.7%
Return on net worth (%)	-11.3%	-0.8%	-8.2%	-19.0%
Gross gearing (times)	2.0	2.8	3.7	4.2
Gross NPA	52	40	83	196
Net NPA	29	10	33	69
Gross stage 3 (%)	5.0%	3.0%	6.3%	13.1%
Net stage 3 (%)	1.5%	0.7%	2.8%	5.1%
Solvency (Net stage 3/Net worth)	3.8%	2.6%	9.5%	23.5%
CRAR (%)	29.7%	26.3%	22.7%	24.4%

Source: NCPL, ICRA Research
All ratios as per ICRA's calculations
#Total income inclusive of non-interest income also
**Net worth exclusive of CCDs*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Apr 11, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Apr 11, 2022	Apr 14, 2021	-	Feb 26, 2020	Jan 13, 2020
1	Long-term Bank Lines	Long Term	64.77	62.27	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Negative)**	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2	Non-convertible Debenture Programme	Long Term	140.0	-	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Negative)**	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
3	Commercial Paper Programme	Short Term	-	-	-	-	-	-	**[ICRA]A2; withdrawn**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture Programme	Very Simple
Long-term Bank Lines	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE814O07204*	Non-convertible Debenture	Sep-29-2016	12.10%	29-Sep-2021	40	[ICRA]BBB (Negative)
INE814O07212	Non-convertible Debenture	Feb-07-2017	12.25%	07-Feb-2023	35	[ICRA]BBB (Negative)
INE814O07238	Non-convertible Debenture	Aug-28-2017	12.50%	28-Aug-2023	65	[ICRA]BBB (Negative)
NA	Long-term Bank Facilities (term loans, working capital loans/CC lines)	-	-	-	64.77	[ICRA]BBB (Negative)

Source: *NCPL*

**Instrument has been matured and fully redeemed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – NA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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