

July 04, 2022

NeoGrowth Credit Private Limited: Rating reaffirmed for fund based bank lines; rating assigned/reaffirmed for non-convertible debenture programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	-	200	[ICRA]BBB (Negative); assigned
Non-convertible Debenture Programme	40	-	[ICRA]BBB (Negative); reaffirmed and withdrawn
Non-convertible Debenture Programme	100	100	[ICRA]BBB (Negative); reaffirmed
Long-term Fund Based Bank Lines	64.77	64.77	[ICRA]BBB (Negative); reaffirmed
Total	204.77	364.77	

*Instrument details are provided in Annexure I

Rationale

ICRA has assigned/reaffirmed the rating for NeoGrowth Credit Private Limited's (NCPL) non-convertible debenture (NCD) programmes and it has reaffirmed the rating for the long-term bank lines as well. The outlook remains Negative.

The rating factors in the company's scale of operations and the timely capital infusions by existing shareholders in the past (latest round of Rs. 50 crore of compulsory convertible debentures (CCDs) raised in June 2022) along with the expectation of continued support to aid growth in the near term. The outlook remains Negative due to the deterioration in the asset quality and the subsequent credit costs, resulting in losses and capital depletion. 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 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 and outlook, however, remain 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. The gross non-performing advances (GNPA) ratio, including write-offs, increased to 19.19% as on March 31, 2022 (compared to the pre-pandemic level of 7.70% in FY2020).

ICRA notes the reduction in the restructured book since FY2021. ICRA also notes that the shorter tenure and daily repayment structure of the loans and 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.

ICRA has reaffirmed and withdrawn the rating assigned to NCPL's Rs. 40-crore NCD programme at the company's request as no amount was outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal and suspension of credit ratings.

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 funds 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 GNPA's deteriorated sharply to 12.93% as on March 31, 2022 (6.4% as on March 31, 2021). The 90+ days past due (dpd) stood at 10.3% as on March 31, 2022 against 4.1% as on March 31, 2021. The company had higher write-offs at Rs. 96 crore, including the written-off accounts from the restructured book, in FY2022 (translating to GNPA's, including write-offs, of 19.2% as on March 31, 2022 compared to 7.7% in FY2020). NCPL has changed its write-off policy for the restructured book to 240+ dpd from 90+ dpd. The restructured book saw an improvement as it shrunk to 15% (Rs. 233 crore) as on March 31, 2022 from 31% (Rs. 408 crore) as on March 31, 2021. The overall collection efficiency (CE) for the loan book stood at 93% as of March 31, 2022. The movement in the asset quality will be a key monitorable in the upcoming months.

Losses and increasing gearing levels – ICRA notes that the company was able to post a profit only in FY2017 (profit after tax (PAT) of Rs. 5.73 crore) in the last five years. NCPL reported a loss of Rs. 39 crore in FY2022 compared to a loss of Rs. 42 crore in FY2021. The losses were mainly due to higher credit costs. The total credit cost was Rs. 147 crore in FY2022.

NCPL's gearing level increased to 4.27 times as on March 31, 2022 (considering CCDs as a part of debt; gearing would have been 3.33 times if the CCDs are converted to equity) from 3.83 times as on March 31, 2021. The operating efficiency improved with the cost-to-income ratio improving to 54.83% in FY2022 (62.11% 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. 303 crore as of March 31, 2022. While the capital adequacy ratio (CAR) remained adequate at 23.2% as of March 31, 2022, the Tier I ratio declined to 17.55% (20.37% as of March 31, 2021). The company had raised CCDs of Rs. 66.2 crore in September 2021 and Rs. 50 crore in June 2022. The reduction in the net worth also resulted in an increase in the gearing and solvency levels (net NPA/net worth increased to 26.1%, as of March 31, 2022, from 9.7% as of March 31, 2021). 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 the company's growth plans.

Liquidity position: Adequate

NCPL's liquidity profile is adequate. As on May 31, 2022, the company had Rs. 76 crore of cash and liquid investments, including unutilised bank lines of Rs. 38 crore. To support its liquidity requirement and disbursements for the next six months, NCPL has already raised debt worth Rs. 80 crore and Rs. 130 crore in February 2022 and March 2022, respectively. It collected around

Rs. 133 crore in March and expects to achieve collections of ~Rs. 270 crore in April and May 2022. The company has repayment obligations of Rs. 396 crore (principal + interest) and operating expenses of Rs. 87 crore till November 2022. It did not have any cumulative mismatches in the less-than-1-year tenor in the March 2022 structural liquidity statement (SLS) and asset-liability management 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's + 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 significant weakening in the liquidity and earnings profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	NA
Consolidation/Standalone	Standalone

About the company

NeoGrowth Credit Private Limited (NCPL) is a non-deposit taking and systemically 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 FY2022, NCPL posted a loss of Rs. 39 crore on a total asset base of Rs. 1,653 crore compared to a loss of Rs. 42 crore on a total asset base of Rs. 1,706 crore in FY2021.

Key financial indicators

NCPL	FY2020	FY2021	FY2022
Total income #	337	313	363
Profit after tax	(3)	(42)	(39)
Net worth	380	340	303 *
Loan book	1,352	1,323	1,559
Total managed assets	1,507	1,706	1,653
Return on managed assets	-0.2%	-2.6%	-2.4%
Return on net worth	-0.8%	-11.6%	-11.7%
Gross gearing (times)	2.8	3.8	4.3
Gross NPAs	40	83	199
Net NPAs	10	33	79
Gross stage 3	3.2%	6.4%	12.9%

NCPL	FY2020	FY2021	FY2022
Net stage 3	0.8%	2.5%	5.1%
Solvency (Net stage 3/Net worth)	2.6%	9.7%	26.1%
CRAR (%)	26.3%	22.3%	23.2%

Source: NCPL, ICRA Research; Amount in Rs. crore

All ratios as per ICRA's calculations

#Total income including non-interest income

*Net worth excluding 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 for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		
					Jul 04, 2022	Apr 11, 2022	Apr 14, 2021	-	Feb 26, 2020	Jan 13, 2020	
1	Non-convertible Debenture Programme	Long Term	200.0	-	[ICRA]BBB (Negative)	-	-	-	-	-	-
2	Non-convertible Debenture Programme	Long Term	100.0	100.0	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
3	Non-convertible Debenture Programme	Long Term	40.0	-	[ICRA]BBB (Negative); reaffirmed and withdrawn	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
4	Long-term Fund Based Bank Lines	Long Term	64.77	43.0	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
5	Commercial Paper Programme	Short Term	-	-		-	-	-	-		[ICRA]A2; withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture Programme	Simple for Rs. 200 crore
Non-convertible Debenture Programme	Very Simple
Long-term Fund Based 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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Not yet placed	Non-convertible Debenture	-	-	-	200.0	[ICRA]BBB (Negative)
INE814O07212	Non-convertible Debenture	Feb-07-2017	12.25%	Feb-07-2023	35.0	[ICRA]BBB (Negative)
INE814O07238	Non-convertible Debenture	Aug-28-2017	12.50%	Aug-28-2023	65.0	[ICRA]BBB (Negative)
INE814O07204	Non-convertible Debenture	Sep-29-2016	12.10%	Sep-29-2021	40.0	[ICRA]BBB (Negative); reaffirmed and withdrawn
NA	Long-term Fund Based Bank Facilities (term loans, working capital loans/CC lines)	Jan-31-2022	NA	Sep-28-2022	13.0	[ICRA]BBB (Negative)
		Jan-31-2022	NA	Nov-30-2022	10.0	[ICRA]BBB (Negative)
		Dec-24-2021	NA	Feb-10-2025	20.0	[ICRA]BBB (Negative)
		-	-	-	21.77	[ICRA]BBB (Negative)

Source: NCPL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: 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.

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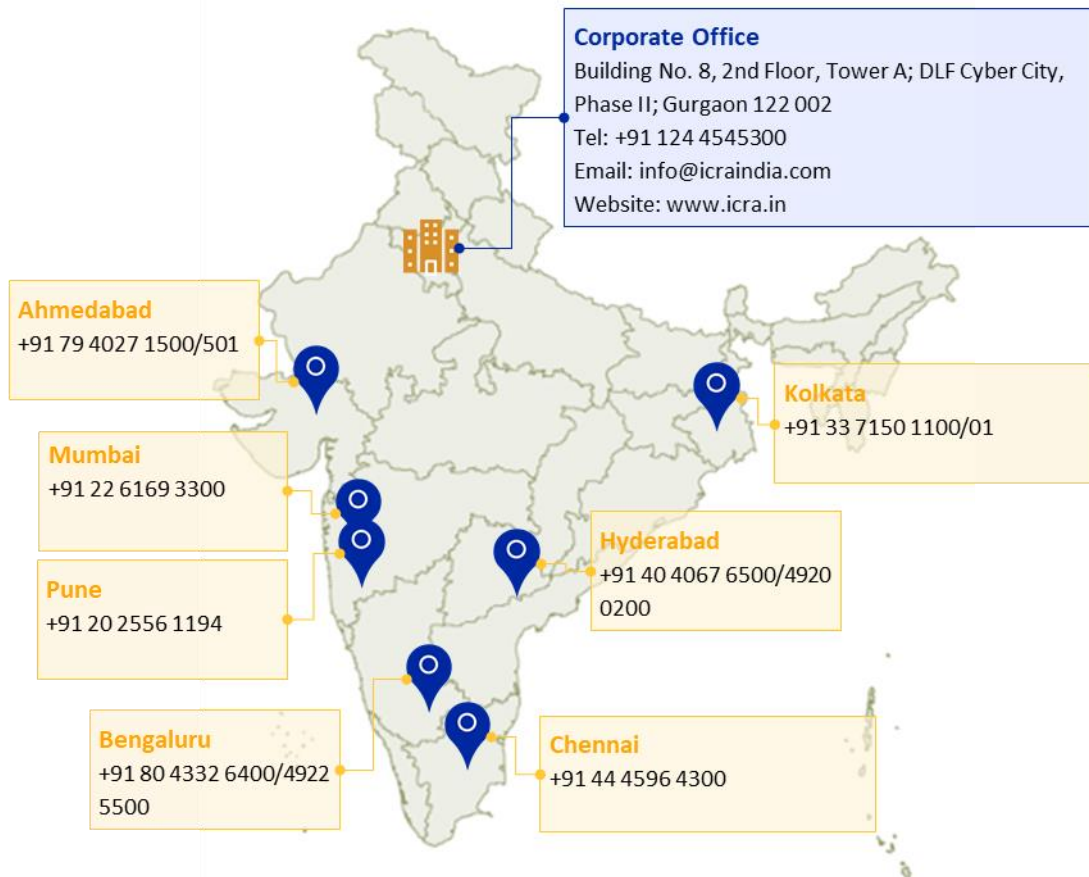
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