

February 27, 2023

NeoGrowth Credit Private Limited: Provisional [ICRA]A(SO) assigned to PTC Series A backed by unsecured business loan receivables issued by Nimbus 2023 UBL Aquarius

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Nimbus 2023 UBL Aquarius	PTC Series A	53.07	Provisional [ICRA]A(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTC) Series A issued under a securitisation transaction originated by NeoGrowth Credit Limited {NCPL; rated [ICRA]BBB (Negative)}. The PTCs are backed by a pool of Rs. 60.45 crore (pool principal; receivables outstanding of Rs. 72.88 crore) unsecured business loan receivables originated by NCPL.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 5.00% of the pool principal to be provided by the originator, (ii) subordination of 12.20% of the pool principal for PTC Series A, and (iii) the excess interest spread (EIS) in the structure. The provisional rating is also based on the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and CC
- Absence of overdue contracts as on pool cut-off date
- Moderate average seasoning and pre-securitisation of the pool as on the pool cut-off date

Credit challenges

- High geographical concentration in the pool with top three states accounting for ~63% of the pool principal
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The promised cash flow schedule for PTC Series A on a monthly basis will comprise the interest at the predetermined yield on the outstanding PTC principal on each pay-out date and the entire principal on the final maturity date.

The first line of support for PTC Series A in the transaction is in the form of a subordination (including the equity tranche) of 12.20% of the pool principal. Additionally, the EIS (~12.99% of the pool principal initially, based on the indicated PTC yield, for

PTC Series A) available in the structure will provide credit enhancement support to the transaction. The surplus EIS available after meeting the promised payouts to the PTCs shall flow back to the originator on every payout. All prepayment amounts would be passed on to the PTC Series A (till PTC Series A principal is not fully amortised) every month and future pay-outs will be revised accordingly. The CC of 5.00% of the initial pool principal (Rs. 3.02 crore), to be provided by NCPL, would act as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC pay-outs during any month, the Trustee will utilise the CC to meet the shortfall.

There are no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top three states constituting ~63% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (~8 months) and pre-securitisation amortisation (~24%). The pool has a high share of contracts (~97%) with a ticket size of more than Rs. 10 lakh. The pool's performance is expected to remain exposed to the underlying credit risks inherent in the asset class and macro-economic shocks/business disruptions.

Performance of past rated pools: ICRA has rated three PTC transaction of NCPL two of which have now matured. The performance of the live pool as on December 2022 payout has been satisfactory with a cumulative collection efficiency of more than 95% with nil CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after considering the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 5.50-6.50% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0%-18.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancements are expected to be comfortable to meet the promised pay-outs to the Series A PTC investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (>95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor pay-outs from the credit enhancement.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of NCPL's portfolio till December 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Auditor's certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

NeoGrowth Credit Private Limited (NCPL) is a non-deposit-taking and systematically important non-banking financial company, which started operations in FY2013. The company is founded 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 founders had founded and managed Venture Infotek, that provided end-to-end card payment processing solutions for banks that issue credit cards and those with whom the merchants have the point-of-sales terminals. The founders divested their stake in the company in 2010.

Key financial indicators

NeoGrowth Credit Finance Limited	FY2021	FY2022	9M FY23
Total income	313	363	267
Profit after tax	(42)	(39)	7
Total AUM	1,323	1,559	1,630
Gross NPA	6.4%	12.9%	5.2%
Net NPA	2.5%	5.1%	2.6%

Source: Company data, ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Feb 27, 2023			
1	Nimbus 2023 UBL Aquarius	PTC Series A	53.07	53.07	Provisional [ICRA]A(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Moderately Complex

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: [Click Here](#)

Annexure I: Instrument details

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Nimbus 2023 UBL Aquarius	PTC Series A	February 2023	11.25%	July 2025	53.07	Provisional [ICRA]A(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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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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