

March 30, 2023

NeoGrowth Credit Private Limited: Provisional [ICRA]A-(SO) assigned to PTC Series A1 backed by MSME business loan receivables issued by Shark 02 2023

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Shark 02 2023	PTC Series A1	44.56	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 A1 issued under a securitisation transaction originated by NeoGrowth Credit Private Limited {NCPL; rated [ICRA]BBB (Stable)}. The PTCs are backed by a pool of Rs. 50.64-crore (pool principal; receivables outstanding of Rs. 62.67 crore) micro, small and medium enterprise (MSME) 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) over-collateralisation of 12.00% of the pool principal for PTC Series A1, and (iii) excess interest spread (EIS) of 25.12% 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 CE in the form of EIS, over-collateralisation and CC
- Absence of overdue contracts as on pool cut-off date; contracts, which are a part of the replenishment pool, would also be current at the time of assignment
- Average seasoning of ~5 months and average pre-securitisation amortisation of ~19% of the pool as on the pool cut-off date

Credit challenges

- High geographical concentration in the pool with top 3 states accounting for ~77% 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

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 A1 on a monthly basis will comprise the interest at the predetermined yield on the outstanding PTC principal on each payout date and the entire principal on the final maturity date. The transaction timeline is divided into two periods, viz. (1) the replenishment period, wherein the pool's cash flows are utilised to purchase new contracts and (2) the amortisation period, wherein the pool gradually amortises. The final maturity date is November 23, 2025.

Replenishment period: The monthly cash flows during the replenishment period, i.e. from April 23, 2023 to September 23, 2023, on each payout date would comprise the payment of the interest expected to PTC Series A1 at the predetermined interest rate on the principal outstanding. All excess cash flow, after meeting the expected PTC Series A1 interest payouts, would be utilised for the purchase of the replenishment pools, as per the predetermined criteria. If the excess cash flow is not utilised to purchase the replenishment pools, PTC Series A1 will be amortised to the extent of the scheduled billing and pool prepayment for the month.

Amortisation period: The monthly cash flow schedule during the amortisation phase, i.e. from September 24, 2023, would comprise the payment of the expected interest to PTC Series A1 at the predetermined interest rate on the principal outstanding. This would be followed by the payment of the expected principal amounts (including any unpaid expected principal payouts to Series A1 PTCs from earlier payout dates) to the PTC Series A1 investors till Series A1 is redeemed in full. All balance amounts, if any, shall flow back to the residual beneficiary (originator).

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation of 12.00% of the pool principal. Additionally, the EIS (25.12% of the pool principal initially, based on the indicated PTC yield, for PTC Series A1) available in the structure will provide CE 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 PTC Series A1 (till PTC Series A1 principal is not fully amortised) every month and future payouts will be revised accordingly. The CC of 5.00% of the initial pool principal (Rs. 2.53 crore), to be provided by NCPL, would act as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC to meet the same.

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 3 states constituting ~77% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (~6 months) and average pre-securitisation amortisation (~19%). The pool has a high share of contracts (~76%) 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 transactions of NCPL, of which two have now matured. The performance of the live pool, as of the 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.

For the current pool, after taking into account the above-mentioned factors regarding the asset class, and after adjusting for key features like seasoning, overdues, ticket size, industry, internal rate of return (IRR), bureau score, nature of borrower's business and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 6.75-7.75%, with certain variability around it. ICRA's estimation of the variability also considers NCPL's short track record.

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 CE are expected to be comfortable to meet the promised payouts to the Series A1 PTC A1 investors.

Rating sensitivities

Positive/Negative factors – The rating is unlikely to be revised during the replenishment period. Any rating revision would depend on the performance of the underlying pool and the CE utilisation during the amortisation period.

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 CE 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 systemically important non-banking financial company, 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 to 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.

Key financial indicators

NeoGrowth Credit Private Limited	FY2021	FY2022	9M FY2023*
Total income	313	363	280
Profit after tax	(42)	(39)	7
Total AUM	1,328	1,559	1,536
Gross NPA	6.2%	12.9%	5.2%
Net NPA	2.8%	5.8%	2.7%

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

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	
					Mar 30, 2023				
1	Shark 02 2023	PTC Series A1	44.56	44.56	Provisional [ICRA]A-(SO)	-	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	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

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Shark 02 2023	PTC Series A1	March 2023	12.05%	November 2025	44.56	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.

For more information, visit www.icra.in

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