

October 25, 2023

## NeoGrowth Credit Private Limited: Rating confirmed as final for PTCs backed by MSME business loan receivables issued by Chanakya-1 Trust July 2023

### Summary of rating action

| Trust Name                 | Instrument*   | Current Rated Amount (Rs. crore) | Rating Action                                      |
|----------------------------|---------------|----------------------------------|--|
| Chanakya-1 Trust July 2023 | PTC Series A1 | 35.27                            | [ICRA]A(SO); provisional rating confirmed as final |

\*Instrument details are provided in Annexure I

### Rationale

In July 2023, ICRA had assigned a Provisional [ICRA]A(SO) rating to the pass-through certificates (PTCs) Series A1 issued by Chanakya-1 Trust July 2023. The PTCs are backed by a pool of Rs. 49.46 crore micro, small and medium enterprise (MSME) business loan receivables (underlying pool principal of Rs. 40.08 crore) originated by NeoGrowth Credit Private Limited {NCPL/originator; rated [ICRA]BBB (Stable)}. Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the performance of the pool after the September 2023 payout month has been provided below.

| Parameter   | Chanakya-1 Trust July 2023 |
|---|----------------------------|
| Months post securitisation                                  | 2                          |
| Actual pool amortisation                                    | 13.46%                     |
| PTC Series A1 amortisation                                  | 15.26%                     |
| Cumulative collection efficiency <sup>1</sup>               | 95.58%                     |
| Loss-cum-0+ dpd (% of initial pool principal) <sup>2</sup>  | 3.32%                      |
| Loss cum 30+ dpd (% of initial pool principal) <sup>3</sup> | 0.99%                      |
| Loss cum 90+ dpd (% of initial pool principal) <sup>4</sup> | 0.00%                      |
| Average monthly prepayment rate                             | 2.21%                      |
| Cumulative credit collateral utilisation                    | 0.0%                       |

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), subordination and CC
- Absence of overdue contracts as on the pool cut-off date

#### Credit challenges

- High geographical concentration in the pool with top 3 states accounting for ~62% of the initial 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

<sup>1</sup>Cumulative collections / (Cumulative billings + Opening overdues at the time of securitisation)

<sup>2</sup>Principal outstanding on contracts aged 0+ dpd / Pool principal outstanding at the time of securitisation

<sup>3</sup>Principal outstanding on contracts aged 30+ dpd / Pool principal outstanding at the time of securitisation

<sup>4</sup>Principal outstanding on contracts aged 90+ dpd / Pool principal outstanding at the time of securitisation

## 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 first line of support for PTC Series A1 in the transaction is in the form of a subordination of 12.00% of the pool principal. Additionally, the EIS (15.78% 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. 2.00 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 ~62% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (6.96 months) and pre-securitisation amortisation (20.77%). Further, the CIBIL score of almost all the contracts is above 700. 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.

**Past rated pools performance:** ICRA has rated eleven PTC transactions of NCPL, of which three have matured. The performance of the live pools, which have completed at least 2 months post securitisation, has been healthy with a monthly collection efficiency of more than 95% and no CC utilisation till the September 2023 payout.

## 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 6.00-7.00% 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 of Series A1 on a monthly basis while the entire 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 PTC Series A1 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 payouts from the CE.

**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 CE utilisation levels.

## Analytical approach

The rating actions are based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Rating Methodology for Securitisation Transactions</a> |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | Not Applicable   |

## About the originator

NeoGrowth Credit Private Limited (NCPL) is a non-deposit taking systemically important non-banking financial company, which started operations in FY2013. It was 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), FMO, Plenitude Ventures Private Limited and IIFL Seed Ventures Fund. Before setting up NCPL, the founders had established and managed Venture Infotek, which provided end-to-end card payment processing solutions to banks that issue credit cards and those with whom merchants have a point-of-sales terminals. The founders divested their stake in the company in 2010.

## Key financial indicators (Audited)

| NeoGrowth Credit Private Limited | FY2021 | FY2022 | FY2023 |
|----------------------------------|--------|--------|--------|
| Total income                     | 313    | 363    | 383    |
| Profit after tax                 | (42)   | (39)   | 17     |
| Total managed assets             | 1,323  | 1,559  | 1,852  |
| Gross stage 3                    | 6.4%   | 12.9%  | 4.3%   |
| Net stage 3                      | 2.5%   | 5.1%   | 2.2%   |

Source: Company, ICRA Research; All ratios as per ICRA calculations; 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                 | Instrument    | Current Rating (FY2024)  |                                | Chronology of Rating History for the Past 3 Years |                         |                         |                         |                         |
|--------|----------------------------|---------------|--------------------------|--------------------------------|---|-------------------------|-------------------------|-------------------------|-------------------------|
|        |                            |               | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024                           |                         | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 |
|        |                            |               |                          |                                | Oct 25, 2023                                      | Jul 28, 2023*           |                         |                         |                         |
| 1      | Chanakya-1 Trust July 2023 | PTC Series A1 | 35.27                    | 35.27                          | [ICRA]A(SO)                                       | Provisional [ICRA]A(SO) | -                       | -                       | -                       |

\*Initial rating assigned

## 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 |
|---------------------------------------|-----------------|-----------------------------|-------------|----------------|--------------------------|----------------|
| <b>Chanakya-1 Trust<br/>July 2023</b> | PTC Series A1   | July 2023                   | 11.80%      | November 2025  | 35.27                    | [ICRA]A(SO)    |

\*Scheduled PTC maturity date at transaction initiation; may change on account of prepayments

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.

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For more information, visit [www.icra.in](http://www.icra.in)

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