

February 15, 2024

NeoGrowth Credit Private Limited: [ICRA]A2 assigned; Long-term rating upgraded to [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture (NCD)	350.00	350.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
NCD	-	100.00	[ICRA]BBB+ (Stable); assigned
NCD	65.00	-	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable) and withdrawn
Long-term fund-based bank lines	89.77	164.77	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable) and rated amount enhanced
Commercial paper programme	-	50.00	[ICRA]A2; assigned
Total	504.77	664.77	

*Instrument details are provided in Annexure I

Rationale

The rating upgrade factors in the improvement in NeoGrowth Credit Private Limited's (NeoGrowth) profitability and the increase in its scale of operations. The company's assets under management (AUM) increased by 51% YoY to Rs. 2,456 crore as of December 31, 2023 from Rs. 1,630 crore as of December 31, 2022. The growth was supported by the equity raise of Rs. 210 crore from the existing and new investors in FY2023. With the improved scale, the profitability also improved with a return on managed assets (RoMA) of 2.7% (annualised) in 9M FY2024 compared to losses in FY2021 and FY2022 and the moderate profit of 0.8% in FY2023. The improvement in the profitability was also supported by lower interest income reversals and the decline in credit costs as the asset quality was previously affected by the Covid-19 pandemic.

The ratings also take into consideration NeoGrowth's adequate capital profile, supported by frequent capital raising. The company reported a net worth of Rs. 636 crore with a managed gearing of 3.1x as on December 31, 2023 (2.8x as on March 31, 2023). Given the planned AUM growth of ~35-40%, the company is likely to require capital in the next 12-18 months while maintaining a managed gearing of ~4x. It continues to have a relatively diverse set of lenders, including overseas lenders, development finance institutions, alternative investment funds and multilateral agencies in addition to loans from non-banking financial companies (NBFCs) and banks. ICRA also takes comfort from the management team's long-standing experience and domain expertise in the retail/small and medium-sized enterprise (SME) lending business.

The ratings, however, remain constrained by the inherent risk associated with unsecured lending and the moderate borrower profile. While the company's focus on the largely untapped small and medium-sized retailer segment is likely to support the yield on assets, its profitability and capitalisation will remain vulnerable to asset quality shocks, given the unsecured nature of the assets.

The Stable outlook is driven by ICRA's expectation that NeoGrowth will continue to grow its scale of operations with an improvement in the profitability. Moreover, ICRA expects the managed gearing to be maintained below 4.0x, supported by capital raise as demonstrated in the past.

ICRA has simultaneously upgraded and withdrawn the long-term rating outstanding on the Rs. 65-crore non-convertible debentures (NCDs) as the instruments have been fully repaid. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Adequate capitalisation supported by equity raise – The company's capitalisation remains adequate with a net worth of Rs. 636 crore and a managed gearing of 3.1 times as of December 31, 2023. The capitalisation has been supported by frequent capital raising. NeoGrowth had raised compulsory convertible debentures (CCDs) of Rs. 66.2 crore in September 2021 and Rs. 50 crore in June 2022 (largely converted to compulsory convertible preference shares (CCPS) in Q3 FY2023). It raised equity of Rs. 160 crore in December 2022 from FMO, the Dutch entrepreneurial development bank. While NeoGrowth's profitability has improved, its borrowings are expected to increase with its growth plans. ICRA expects the company to raise capital to meet its growth plans while ensuring the managed gearing remains below 4x.

Improving profitability – NeoGrowth's earnings profile improved in 9M FY2024 with the company reporting a profit after tax (PAT) of Rs. 50 crore (RoMA of 2.7%) compared to a PAT of Rs. 17 crore in FY2023 (RoMA of 0.8%). The profitability was adversely impacted in FY2021, FY2022 and FY2023 by the high credit costs and lower net interest margins (NIMs) due to the reversal of interest income on write-offs and stage 3 assets amid the pandemic. The improvement in the profitability in 9M FY2024 was supported by higher NIMs, given the lower reversal of interest income with reduced write-offs, and improved operating efficiency with the growth in the loan book. With the growth in the AUM, the profitability is expected to improve further, provided the company is able to contain its credit costs.

Credit challenges

Moderate borrower profile – The company provides unsecured business loans (working capital financing) with an average ticket size of ~Rs. 14 lakh to small and medium-sized retailers; the repayments are largely linked to the daily sales collections (accounting for ~63% of the loan book as on December 31, 2023). The balance portfolio comprises supply chain financing to micro, small, and medium enterprises (MSMEs) with an average ticket size of Rs. 23 lakh. ICRA notes the inherent risk in the portfolio due to the moderate credit profile of the borrowers, who are highly vulnerable to downturns in economic cycles. Further, a large part of the AUM (98%) represents unsecured lending, impeding recoveries from the harder delinquency buckets.

NeoGrowth's asset quality deteriorated in FY2021 and FY2022 due to the impact of the pandemic. The gross and net non-performing advances (NPAs) improved to 4.3% and 2.3%, respectively, as on March 31, 2023, supported by high write-offs. As the company had largely provided for the Covid-impacted portfolio by March 31, 2023, the gross NPA and net NPA improved further to 3.6% and 1.5% respectively as on December 31, 2023. Including annualised write-offs in 9M FY2024, the gross NPA stood at 8.0% as on December 31, 2023 (14.2% as on March 31, 2023). The existing AUM almost entirely comprises the book originated after the pandemic. The ability to maintain the asset quality and contain the credit costs would remain key for improving the profitability.

Liquidity position: Adequate

NeoGrowth has repayment obligations of Rs. 920 crore (principal + interest) for the 6-month period till June 2024. As on December 31, 2023, it had Rs. 88 crore of cash and liquid investments and unutilised bank lines of Rs. 45 crore. Liquidity is supported by inflows from the loan book and the company did not have any cumulative mismatches in the less-than-1-year tenor in the structural liquidity statement (SLS) as of December 31, 2023.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company shows a significant improvement in its scale of operations along with a consistent improvement in the profitability.

Negative factors – Pressure on the ratings could arise if there is a sustained and significant deterioration in the asset quality and earnings profile and a continued increase in the managed gearing to more than 4x.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating methodology for non-banking finance companies Policy on withdrawal of credit ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

NeoGrowth Credit Private Limited, which commenced operations in FY2013, is a non-deposit taking systemically important non-banking financial company (NBFC) providing loans to SMEs. The company was founded by Mr. Dhruv Khaitan and Mr. Piyush Khaitan, and its investors include ON Mauritius, Aspada Investment Advisors, Khosla Impact Fund, Frontier Investments Group (Accion), Trinity Inclusion Ltd. (Leapfrog), Mr. Arun Nayyar (Managing Director (MD) & Chief Executive Officer (CEO)), IIFL Seed Ventures Fund and FMO (the Dutch entrepreneurial development bank). Before setting up NeoGrowth, the founders had founded and managed Venture Infotek, which provided end-to-end card payment processing solutions to banks that issue credit cards and with whom merchants have point of sales terminals.

Key financial indicators (audited)

NeoGrowth Credit Private Limited	FY2022	FY2023	9M FY2024*
Total income	363	383	430
PAT	-39	17	50
Total managed assets	1,852	2,250	2,768
Return on managed assets	-2.1%	0.8%	2.7%#
Reported gearing (times)	4.3	2.5	2.9
Managed gearing (times)	4.3	2.8	3.1
Gross NPA	12.9%	4.3%	3.6%
CRAR	23.2%	32.7%	30.7%

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations, # Annualised; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information:

NeoGrowth faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure.

Rating history for past three years

	Instrument	Current Rating (FY2024)					Chronology of Rating History for the Past 3 Years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2024 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023				Date & Rating in FY2022	Date & Rating in FY2021	
					Feb 15, 2024	Jun 21, 2023	Mar 15, 2023	Mar 09, 2023	Jul 04, 2022	Apr 11, 2022	Apr 14, 2021	-	
1	Non-convertible debenture programme	Long term	100.00	-	[ICRA]BBB+ (Stable)								
2	Non-convertible debenture programme	Long term	150.00	140.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)							
3	Non-convertible debenture programme	Long term	200.00	199.80	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)				
4	Non-convertible debenture programme	Long term	65.00	-	[ICRA]BBB+ (Stable); upgraded and withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	-
5	Non-convertible debenture programme	Long term	-	-	-	-	-	[ICRA]BBB reaffirmed & withdrawn; outlook revised to Stable from Negative	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	-
6	Non-convertible debenture programme	Long term	-	-	-	-	-	-	[ICRA]BBB (Negative); reaffirmed and withdrawn	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	-
7	Long-term fund-based bank lines	Long term	164.77	120.39	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	-

	Instrument	Current Rating (FY2024)					Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2024 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023				Date & Rating in FY2022	Date & Rating in FY2021
					Feb 15, 2024	Jun 21, 2023	Mar 15, 2023	Mar 09, 2023	Jul 04, 2022	Apr 11, 2022	Apr 14, 2021	-
8	Commercial paper programme	Short term	50.00	-	[ICRA]A2	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	Very Simple
Commercial paper 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: [Click Here](#)

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	-	-	-	110.20	[ICRA]BBB+ (Stable)
INE814O07485		Dec-26-2023	12.55%	Mar-20-2025	20.00	[ICRA]BBB+ (Stable)
INE814O07477		Sep-28-2023	11.25%	Oct-28-2024	25.00	[ICRA]BBB+ (Stable)
INE814O07469		Sep-22-2023	11.25%	Dec-22-2024	30.00	[ICRA]BBB+ (Stable)
INE814O07451		Sep-15-2023	11.25%	Sep-25-2024	40.00	[ICRA]BBB+ (Stable)
INE814O07428		Jun-30-2023	12.00%	Dec-07-2024	10.00	[ICRA]BBB+ (Stable)
INE814O07436		Jun-28-2023	12.00%	Jun-07-2026	15.00	[ICRA]BBB+ (Stable)
INE814O07410		Jun-22-2023	11.50%	Jun-27-2024	29.00	[ICRA]BBB+ (Stable)
INE814O07402		Mar-21-2023	12.75%	Mar-25-2024	35.00	[ICRA]BBB+ (Stable)
INE814O07394		Feb-28-2023	13.80%	Feb-28-2026	25.00	[ICRA]BBB+ (Stable)
INE814O07360		Jul-19-2022	12.90%	Jul-19-2026	80.00	[ICRA]BBB+ (Stable)
INE814O07378		Aug-27-2022	12.25%	Aug-26-2027	30.80	[ICRA]BBB+ (Stable)
INE814O07238		Aug-28-2017	12.50%	Aug-28-2023	65.00	[ICRA]BBB+ (Stable); withdrawn
Not yet placed		Commercial paper programme	-	-	7-365 days	50.00
NA	Long-term fund-based bank lines	-	-	-	164.77	[ICRA]BBB+ (Stable)

Source: Company

[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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