

February 20, 2024

NeoGrowth Credit Private Limited: Rating confirmed as final for SNs backed by MSME business loan receivables issued by Aryabhata-3 Trust November 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Aryabhata-3 Trust November 2023	Series A1 SN	49.99	[ICRA]A+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In November 2023, ICRA had assigned a Provisional [ICRA]A+(SO) rating to the Series A1 SN (securitisation notes) issued by Aryabhata-3 Trust November 2023. The SNs are backed by a pool of Rs. 71.59 crore micro, small and medium enterprise (MSME) business loan receivables (underlying pool principal of Rs. 58.81 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 January 2024 payout month has been provided below.

Parameter	Aryabhata-3 Trust November 2023
Months post securitisation	2
Actual pool amortisation	14.01%
Series A1 SN amortisation	16.60%
Cumulative collection efficiency ¹	95.86%*
Loss-cum-0+ dpd (% of initial pool principal) ²	2.67%
Loss cum 30+ dpd (% of initial pool principal) ³	0.00%
Loss cum 90+ dpd (% of initial pool principal) ⁴	0.00%
Average monthly prepayment rate	2.66%
Cumulative credit collateral utilisation	0.0%

*Calculation only for live contracts

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, subordination and CC
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- High geographical concentration in the pool with top 3 states accounting for 58.94% 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.

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

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

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

⁴Principal 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 have been assigned at par to the Investors. The promised cash flow schedule for Series A1 SN, on a monthly basis, comprise the interest at the predetermined yield on the outstanding Principal on each payout date and the entire principal on the final maturity date.

The first line of support for Series A1 SN in the transaction is in the form of a subordination of 15.00% of the pool principal (equity tranche of 5.00% of the pool principal and over-collateralisation of 10.00% of the pool principal). Additionally, the EIS (14.41% of the pool principal initially, based on the indicated SN yield, for Series A1 SN) available in the structure will provide CE support to the transaction. The surplus EIS available, after meeting the promised payouts to the SNs, shall flow back to the originator on every payout. All prepayment amounts would be passed on to Series A1 SN (till Series A1 SN 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. 2.94 crore), provided by NCPL, would act as further CE in the transaction. In the event of a shortfall in meeting the promised SN 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 58.94% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (7.95 months) and pre-securitisation amortisation (23.41%). 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 19 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 ~92% and no CC utilisation till the January 2024 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 5.00-6.00% 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

The liquidity for Series A1 SN is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~4.75 times the estimated loss in the pool.

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. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is 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	Rating Methodology for Securitisation Transactions
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	H1FY2024
	Audited	Audited	Audited	Provisional
Total income	313	363	383	270
Profit after tax	(42)	(39)	17	29
Total managed assets	1,323	1,559	1,852	2,298
GNPA	6.4%	12.9%	4.3%	3.2%
NNPA	2.5%	5.1%	2.2%	1.5%

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
					Feb 20, 2024	Nov 27, 2023*	-	-	-
1	Aryabhata-3 Trust November 2023	Series A1 SN	49.99	49.99	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	-

*Initial rating assigned

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 SN	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
Aryabhata-3 Trust November 2023	Series A1 SN	November 2023	11.30%	May 2026	49.99	[ICRA]A+(SO)

*Scheduled SN 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:

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