

February 29, 2024

## NeoGrowth Credit Private Limited: Provisional [ICRA]A(SO) assigned to Series A1 PTC backed by MSME business loan receivables issued by Charak 2 February 2024 Trust

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Charak 2 February 2024 Trust	Series A1 PTC	33.48	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 [ICRA]A(SO) rating to pass-through certificate (PTC) Series A1 issued by Charak 2 February 2024 Trust under a securitisation transaction originated by NeoGrowth Credit Private Limited {NCPL; rated [ICRA]BBB+ (Stable)}. The PTCs are backed by a pool of 48.40-crore (receivables; underlying pool principal outstanding of Rs. 38.05 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 4.00% of the pool principal to be provided by the originator, (ii) subordination of 12.00% of the pool principal for PTC Series A1, and (iii) the excess interest spread (EIS) of 19.47% 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 the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of CE in the form of 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 pool principal
- Exposed to inherent credit risk associated with the unsecured nature of the underlying 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 first line of support for Series A1 PTC in the transaction is in the form of a subordination of 12.00% of the initial pool principal (equity tranche of 6% and over-collateralisation of 6.00% of the initial pool principal). Additionally, the EIS (19.47% of the pool principal initially, based on the indicated PTC yield, for Series A1 PTC) 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 Series A1 PTC (till Series A1 PTC principal is not fully amortised) every month and future payouts will be revised accordingly. The CC of 4.00% of the initial pool principal (Rs. 1.52 crore), to be provided by NCPL, would act as further CE in the transaction. The trustee will utilise the CC to meet any shortfall in the promised PTC payouts during any month.

There were 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 daily, fortnightly, and monthly paying loan contracts, with moderate weighted average seasoning (5.16 months) and pre-securitisation amortisation (16.23%). 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 any macro-economic shocks/business disruptions.

**Performance of past rated pools:** The performance of the 17 live pools rated by ICRA (which have completed at least 2 months post securitisation) has been healthy with a monthly collection efficiency of more than ~94% with no CC utilisation till the February 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 7.00-8.00% 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 PTC is strong after factoring in the CE available to meet the promised payouts to the investor. The total CE would be 3.25 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 analysis of the performance of NCPL's portfolio till December 2023, 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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](http://www.icra.in).

## 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), Trinity Inclusion (Leapfrog Investments) 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

NCPL	FY2021	FY2022	FY2023	9M FY2024
	Audited	Audited	Audited	Provisional
Total income	313	363	383	429
Profit after tax	(42)	(39)	17	50
Total AUM	1,323	1,559	1,852	2,456
GNPA	6.4%	12.9%	4.3%	3.6%
NNPA	2.5%	5.1%	2.2%	1.4%

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 (FY2024)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
1	Charak 2 February 2024 Trust	Series A1 PTC	33.48	33.48	Feb 29, 2024 Provisional [ICRA]A(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	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 (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
<b>Charak 2 February 2024 Trust</b>	Series A1 PTC	February 2024	11.20%	January 2026	33.48	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](http://www.icra.in)

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