

May 27, 2024

NeoGrowth Credit Private Limited: Provisional [ICRA]A(SO) assigned to PTC Series A1 backed by MSME business loan receivables issued by Chanakya-3 Trust May 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Chanakya-3 Trust May 2024	PTC Series A1	46.78	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

The pass-through certificates (PTCs) are backed by a pool of micro, small and medium enterprise (MSME) business loan receivables originated by NeoGrowth Credit Private Limited {NCPL/Originator; rated [ICRA]BBB+ (Stable)} with an aggregate principal outstanding of Rs. 53.16 crore (pool receivables of Rs. 67.86 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The residual cash flow available, after making the promised and expected payments, shall flow back to the Originator on every payout date. 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 credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 3.50% of the initial pool principal, amounting to Rs. 1.86 crore, to be provided by the Originator, (ii) subordination of 12.00% of the initial pool principal for PTC Series A1, and (iii) the excess interest spread (EIS) of 19.68% of the initial pool principal for PTC Series A1.

Key rating drivers

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 422 contracts, with the top 10 contracts forming only ~7% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would be sufficient to absorb some losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, none of the contracts in the pool have ever been delinquent, which is a credit positive.

Healthy bureau score of borrowers – All the borrowers in the pool have a CIBIL score of 700 and above, which reflects their relatively better credit profile.

Credit challenges

Significant geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Karnataka, Andhra Pradesh and Maharashtra, contributing 61% to the initial pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Higher IRR contracts – The weighted average pool Internal rate of return is 30.46%. A sizeable portion of the pool consists of borrowers belonging to high IRR categories, which have shown relatively higher delinquencies in the overall portfolio.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 7.5%, with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Liquidity position: Strong

The liquidity for PTC Series A1 is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be 3.5 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 (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement.

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 credit enhancement 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 March 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement 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 originator

NeoGrowth Credit Private Limited, which commenced operations in FY2013, is a non-deposit taking systemically important non-banking financial company (NBFC) providing loans to small and medium enterprises (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). Prior to setting up NeoGrowth, 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 merchants have point of sales terminals. The assets under management (AUM) stood at Rs. 2,750.5 crore as on March 31, 2024.

Key financial indicators

NCPL	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	363	383	601
Profit after tax	(39)	17	71
Total AUM	1,559	1,852	2,750
GS3	10.8%	3.2%	3.7%
CRAR	22.3%	23.2%	28.5%

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

S. No.	Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
1	Chanakya-3 Trust May 2024	PTC Series A1	46.78	46.78	May 27, 2024 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 (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Chanakya-3 Trust May 2024	PTC Series A1	May 2024	11.50%	September 2026	46.78	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.

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