

June 20, 2024

## NeoGrowth Credit Private Limited: Rating upgraded for PTCs issued under MSME business loans securitisation transaction by Kathy 12 2023

### Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Kathy 12 2023	Series A1 PTC	25.48	-	13.65	[ICRA]A(SO); Upgraded from [ICRA]A-(SO)

\*Instrument details are provided in Annexure I

### 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)}. The rating upgrade factors in the build-up of the credit enhancement cover over the future PTC payouts on account of the amortisation of the pool. Despite some moderation in collections in recent months, the breakeven collection efficiency is comfortable compared to the actual collection efficiency observed in the pool.

### Pool performance summary

Parameter	Kathy 12 2023
Payout month	May 2024
Months post securitisation	5
Pool amortisation (as % of initial pool principal)	41.30%
Series A1 PTC amortisation	46.44%
Cumulative collection efficiency <sup>1</sup>	91.90%
Loss-cum-30+ dpd <sup>2</sup> (% of initial pool)	7.82%
Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)	0.62%
Cumulative cash collateral (CC) utilisation	0.00%
Cumulative prepayment rate	19.08%
Breakeven collection efficiency <sup>4</sup> for Series A1 PTC	66.60%
CC (% of balance pool)	8.52%
Principal subordination (% of balance pool) Series A1 PTC	17.88%
Excess interest spread (EIS; % of balance pool) for Series A1 PTC <sup>5</sup>	12.94%

### 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. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of the Series A1 PTC principal.

<sup>1</sup> (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)

<sup>2</sup> Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of Initial pool principal

<sup>3</sup> Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal

<sup>4</sup> (Balance cash flows payable to investor – CC available)/Balance pool cash flows

<sup>5</sup> (Pool cash flows – Cash flows to PTC A)/Pool principal outstanding

## Key rating drivers and their description

### Credit strengths

**Substantial credit enhancement available in the structure** – The rating factors in the build-up in the credit enhancement with the cash collateral increasing to 8.52% from 5.00% of the balance pool principal within six months of securitisation. Also, the subordination has increased to 17.88%, providing internal credit support to the transaction.

**Healthy pool performance** – The pool’s performance has been strong with a cumulative collection efficiency of more than 91% till the May 2024 payout, though some decline was witnessed in the last two months when the monthly collection efficiency was below 90%. This led to an increase in delinquencies in the softer buckets of 0+ and 30+, which stood at 12.6% and 7.8%, respectively, after the May 2024 payout. The roll-forward in the harder bucket has so far been contained with the 90+ at 0.6%. The breakeven collection efficiency also declined to ~66% from ~74% during securitisation and is comfortable, below the collections seen in recent months.

### Credit challenges

**High geographical concentration** – The pool has high geographical concentration with the top 3 states, viz. Karnataka, Andhra Pradesh and Maharashtra, contributing ~52% 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.

**Risks associated with lending business** – 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, if any.

### 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 8.50%, 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.

### Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	Kathy 12 2023
Originator	NeoGrowth Credit Private Limited
Servicer	NeoGrowth Credit Private Limited
Trustee	Beacon Trusteeship Ltd
CC Bank	ICICI Bank

<b>Transaction Name</b>	<b>Kathy 12 2023</b>
<b>Collection and payout account bank</b>	RBL Bank

### Liquidity position: Strong

The liquidity for Series A1 PTC is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~4.00 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, 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 of contracts, 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 performance of the pool till May 2024 (payout month), the present delinquency levels and the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

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

### 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 NCPL, 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. 2,750.46 crore as on March 31, 2024.

### Key financial indicators

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

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					June 20, 2024	April 01, 2024	December 29, 2023	-	-
1	Kathy 12 2023	Series A1 PTC	25.48	13.65	[ICRA]A(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Kathy 12 2023	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	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
<b>Kathy 12 2023</b>	Series A1 PTC	December 26, 2023	11.40%	May 23, 2026	13.65	[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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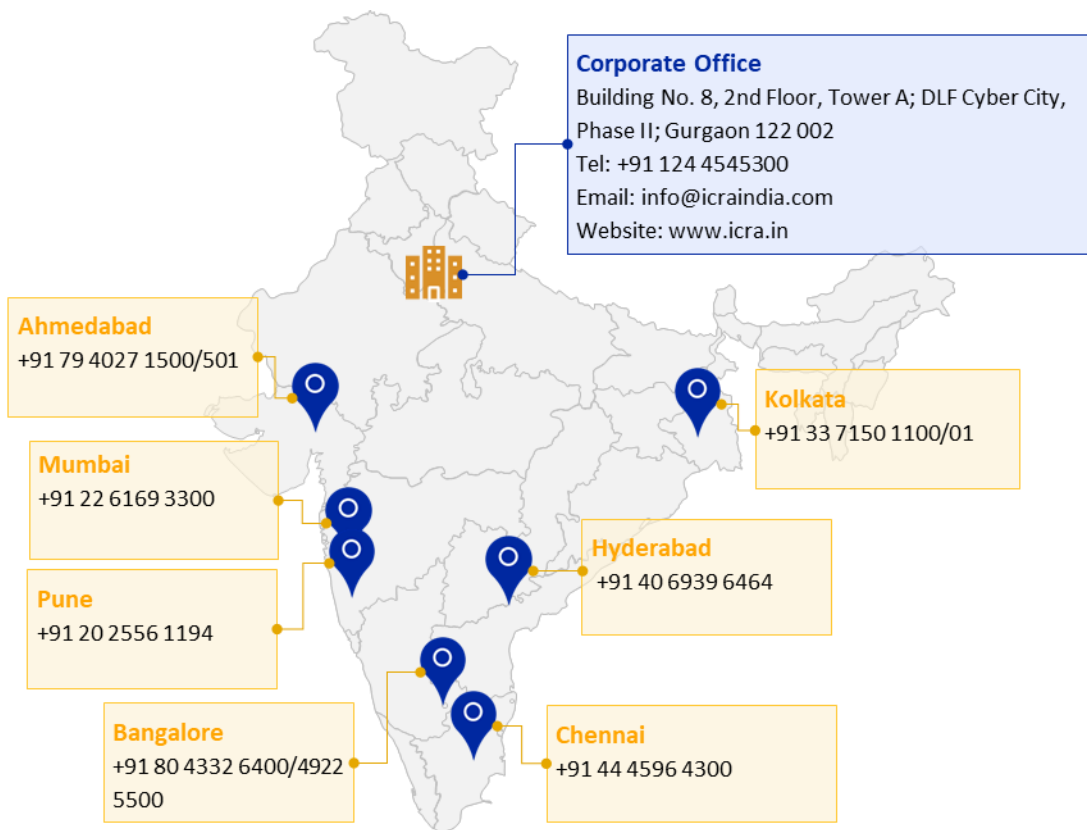
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