

June 30, 2024

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

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Vayu Trust June 2024	Series A1 PTC	95.99	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 outstanding of Rs. 110.33 crore (pool receivables of Rs. 138.83 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts along with the eligibility criteria for follow-on pools, the credit enhancement available in the structure as well as the integrity of the legal structure. The provisional 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 tenure of the pool shall be divided into two periods – replenishment period and amortisation period.

Replenishment period

The replenishment period will be for 24 months from the transaction commencement date. During this period, Series A1 PTC investors will receive only the promised interest payouts on a monthly basis and the balance pool collections will be used by the trust to purchase fresh loan receivables as per the selection criteria such that the pool principal remains unchanged. Further, as per the transaction structure, residual pool collections will be used to redeem the Series A1 PTC, till the advance rate is more than or equal to 70%. The advance rate is defined as outstanding amount of Series A1 PTC divided by sum of the principal outstanding value of all underlying loans (that are up to 30 days past due (dpd)) and cash collateral (CC). This will lead to buildup of subordination for the rated instruments.

The transaction also entails certain trigger events for early amortisation. A breach of any of these trigger events would lead to the end of the replenishment period and the start of the amortisation period. If a trigger event occurs at any time during the replenishment period, then the tenure of the PTCs shall be reduced and be co-terminus with the remaining tenure of the pool of receivables assigned to the trust.

Amortisation period

Post the replenishment period, the residual pool collections will be utilised to repay Series A1 PTC. The monthly cash flow schedule will comprise of the promised interest payout for Series A1 PTC. The principal for Series A1 PTC 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 either be used to prepay Series A1 PTC (if advance rate as defined earlier is more than or equal to 50%) or flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

The credit enhancement available in the structure is in the form of (i) a CC of 3.00% of the initial pool principal, amounting to Rs. 3.31 crore, to be provided by the Originator, (ii) principal subordination of 13.00% of the initial pool principal for Series A1 PTC and (iii) the entire EIS in the structure. However, the principal subordination would build up during the replenishment period basis the transaction structure.

NCPL will initially be the Servicer for the transaction. However, Northern Arc Capital Limited has been identified to take over servicing upon occurrence of certain pre-defined events.

Key eligibility criteria for the receivables

Loans / receivables in the Initial Pool/Pool assigned to the Trust shall be selected based on the criteria specified below:

- Loans are not overdue.
- Loans should not have been overdue on any date since origination beyond 30 days.
- Loans should not have been restructured or rescheduled or given any moratorium.
- Loans have fixed rate of interest.
- Concentration to any state in the underlying pool to not exceed 25% and to any branch not to exceed 20%.
- Weighted average Annualised Rate of Interest (without any fees) on the underlying loans in the pool to be minimum 22%;
- Weighted average net seasoning is at least 4 months.
- CIBIL score of the obligors not to be lower than 700 at the time of their origination and on the date of assignment.

Trigger events for early amortisation

On the occurrence of any of the following trigger events, Replenishment Period will end immediately with no further loans / receivables being purchased and the PTCs will move to the Amortisation Period.

- The Originator does not have sufficient loans (which meet the Eligibility Criteria) for sale during the Replenishment Period
- Any default on its debt obligations by the Originator / Servicer or initiation of any insolvency proceedings by any lender of the Originator/Servicer or filing of insolvency application by any regulator of the Originator/Servicer
- Material breach of obligations by the Servicer
- Downward revision in the Servicer's rating below BBB- by any of the existing rating agencies rating the Originator/Servicer
- Any downward revision in the rating assigned to the Series A1 PTCs
- Series A1 PTC Outstanding Amount is greater than 88% of Performing Balance
- CC has been utilised
- Cumulative Default Rate has exceeded 9% in the first 12 months and exceeded 11% thereafter ; cumulative default rate is defined principle of loans in 30 Dpd or more divided by aggregate pool principal.
- For any of the Half Yearly Vintage in the Pool, the Cumulative Default Rate (for selected Half Yearly Vintage) has exceeded 10% in the first 12 months and exceeded 12% thereafter

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement –The pool is granular and basis the eligibility criteria the follow-on pools are also expected to be granular. The current pools consists of 574 contracts, with no contract exceeding 1% of the pool principal (or top 10 contracts forming only ~5% 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 absorb some amount of the losses in the pool and provide support in meeting the PTC payouts. Basis the advance rate criteria the EIS would be passed to Series A1 PTC for the first ten months of the replenishing period which would lead to increasing the subordination for Series A1 PTC to 29.1% (assuming 100% collection efficiency and nil prepayment).

No overdue contracts in the pool – The initial pool has no overdue contracts as on pool cut-off date. Further any follow-on pool would also not include any overdue contracts on date of assignment to trust which is a credit positive.

Credit challenges

Moderate pool selection criteria– A potential concern pertaining to a replenishing structure is the uncertainty regarding the exact composition of the additional receivables. While the current transaction has a specified eligibility criteria the follow-on pools may have a lower seasoning, lower interest rate contracts, contracts from weaker geographies and moderate share of lower bureau score contracts.

Risks associated with lending business– The performance of both the initial and the follow-on pools 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. Both the initial and the follow-on pools are exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recovery from delinquent contracts tends to be lower.

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. However, since the pool in the current transaction would be revised during the replenishment period, the characteristics of the pool would change unlike other PTC transactions where the pool is static. ICRA has used the defined eligibility criteria to arrive at a potential loss for the follow-on pools. The resulting collections from the current pool and follow on pools, 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 transaction, ICRA has estimated the shortfall in the principal of the pool crystallised at the end of replenishment period at 7.25% at end of its tenure 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 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 ~5.5 times the estimated loss in the pool.

Rating sensitivities

Positive Factors– Since the principal amortisation would begin on the crystallisation of the final pool, the rating is unlikely to be upgraded till the final pool is crystallised. The rating could be upgraded basis the healthy collections observed in the final crystallised pool, leading to the build-up of the credit enhancement cover over the rated PTCs.

Negative Factors– The rating could be downgraded on the occurrence of a trigger event, non-adherence to the key transaction terms and deterioration in the performance of the follow-on pools such that the delinquencies during the amortisation period are higher than expected. Weakening in the credit profile of the servicer (NCPL) 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 eligibility criteria for follow-on pools, 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 to 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 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. 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. 2,750.46 crore as on March 31, 2024.

Key financial indicators

NCPL	FY2022 Audited	FY2023 Audited	FY2024 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
					June 30, 2024	-	-	-
1	Vayu Trust June 2024	Series A1 PTC	95.99	95.99	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
Vayu Trust June 2024	Series A1 PTC	June 26, 2024	11.25%	December 14, 2028	95.99	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

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