

August 13, 2024

NeoGrowth Credit Private Limited: Rating for PTCs backed by MSME business loan receivables issued by Chanakya-3 Trust May 2024 confirmed as final and placed on rating watch with developing implications

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Chanakya-3 Trust May 2024	PTC Series A1	46.78	[ICRA]A(SO); provisional rating confirmed as final and placed on rating watch with developing implications

*Instrument details are provided in Annexure I

Rationale

In May 2024, ICRA had assigned a provisional rating to the pass-through certificates (PTCs) issued by Chanakya-3 Trust May 2024 under a securitisation transaction originated by NeoGrowth Credit Private Limited {NCPL/Originator; rated [ICRA]BBB+ (Stable)}. The PTCs are backed by a pool of micro, small and medium enterprise (MSME) business loan receivables with an aggregate principal outstanding of Rs. 53.16-crore (pool receivables of Rs. 67.86-crore).

ICRA notes that due to inadvertent oversight by the stakeholders, the actual cash collateral provided in the transaction was 3.00% of the initial pool principal as against 3.50% indicated at the time of assigning provisional rating. Apart from this, the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction has been provided to ICRA. Hence, the said rating has now been confirmed as final and placed on rating watch with developing implications. ICRA will continue to monitor performance of the underlying pool and take suitable rating action based on the actual pool performance.

Pool performance summary

Parameter	Chanakya-3 Trust May 2024
Payout month	July 2024
Months post securitisation	2
Pool amortisation	11.33%
PTC Series A1 amortisation	12.88%
Cumulative prepayment rate	3.06%
Cumulative collection efficiency ¹	93.27%
Loss-cum 0+ days past due (dpd) ²	13.49%
Loss cum 30+ dpd ³	0.97%
Cumulative cash collateral (CC) utilisation	0.00%
CC as % of the balance pool principal	3.38%
Subordination as % of the balance pool principal	13.53%

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

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

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

Transaction structure

As per the transaction structure, the monthly cashflow 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 cashflow available, after making the promised and expected payments, shall flow back to the Originator on every payout date. 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 cash collateral (CC) of 3.00% of the initial pool principal, amounting to Rs. 1.59 crore, 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 and their description

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 pool has amortised by ~13% leading to buildup in credit enhancement, with CC and subordination being 3.38% and 13.53% as on July 2024 payout compared to 3% and 12% initially.

Healthy bureau score of borrowers – In the pool, 100% of the borrowers (in terms of the principal amount outstanding on the cut-off date) have a CIBIL score of 700 and above (as on cut-off date), 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, Adhra 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 IRR is 30.46%. A sizeable portion of the pool consists of borrowers belonging to the high IRR categories, which have shown relatively higher delinquencies in the overall portfolio.

Risks associated with lending business – The pool is 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 7.50%, 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	Chanakya-3 Trust May 2024
Originator	NeoGrowth Credit Private Limited
Servicer	NeoGrowth Credit Private Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	RBL Bank
Collection and payout account bank	ICICI Bank

Liquidity position: Strong

The liquidity for PTC Series A1 is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~3.50 times the estimated loss in the pool.

Rating sensitivities

Positive / Negative factors – The rating watch would be resolved based on performance of the pool and buildup of credit enhancement.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and ICRA's evaluation of the executed transaction documents.

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, 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 founders 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
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, ICRA Research; All ratios as per ICRA calculations; Amount in Rs. crore

*Gross stage 3 % is derived as (Gross stage 3 loans)/(Gross loans). During December 23, the company revised the classification of Stage 3 asset to align it with the definition of Substandard asset as per the RBI norms

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 (FY2025)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Aug 13, 2024	May 27, 2024			
1	Chanakya-3 Trust May 2024	PTC Series A1	46.78	[ICRA]A(SO); Rating watch with developing implications	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	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Amount Rated (Rs. crore)	Current Rating
Chanakya-3 Trust May 2024	PTC Series A1	May 22, 2024	11.50%	September 11, 2026	46.78	[ICRA]A(SO); Rating watch with developing implications

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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Branches



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