

September 03, 2024

NeoGrowth Credit Private Limited: Rating confirmed as final for PTCs backed by MSME business loan receivables issued by Gagan 05 2024

Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---------------|---------------|----------------------------------|--|
| Gagan 05 2024 | PTC Series A1 | 29.43 | [ICRA]A(SO); provisional rating confirmed as final |

*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 Gagan 05 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 33.44 crore (pool receivables of Rs 41.97 crore).

Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

Pool performance summary

| Parameter | Gagan 05 2024 |
|---|---------------|
| Payout month | July 2024 |
| Months post securitisation | 2 |
| Pool amortisation | 10.78% |
| PTC Series A1 amortisation | 12.53% |
| Cumulative prepayment rate | 2.34% |
| Cumulative collection efficiency ¹ | 95.81% |
| Loss-cum 0+ days past due (dpd) ² | 7.43% |
| Loss cum 30+ dpd ³ | 1.75% |
| Loss cum 90+ dpd ⁴ | 0.00% |
| Cumulative cash collateral (CC) utilisation | 0.00% |

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

⁴ Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

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 PTC Series A1 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. 1.00 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 17.47% 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 272 contracts, with no contract exceeding 2.00% of the pool principal (or top 10 contracts forming only ~15% 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.

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, which reflects their relatively better credit profile.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Karnataka, Adhra Pradesh and Maharashtra, contributing ~57% 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 average weighted average pool IRR is ~28%. 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 – 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 7.00%, with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18.0% 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 | Gagan 05 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 payout to the investor. The total credit enhancement would be 3.5 times the estimated loss in the pool

Rating sensitivities

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 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 (NCPL) could also exert pressure on the rating.

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 | Initial Rated Amount (Rs. crore) | Current Amount Rated (Rs. crore) | Date & Rating in FY2025 | | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| | | | | | Sep 03, 2024 | May 27, 2024 | | | |
| 1 | Gagan 05 2024 | PTC Series A1 | 29.43 | 29.43 | [ICRA]A(SO) | 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 |
|----------------------|---------------|-----------------------------|------------------------|---------------|----------------------------------|----------------|
| Gagan 05 2024 | PTC Series A1 | May 24, 2024 | 11.60% | May 17, 2026 | 29.43 | [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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