

October 08, 2024

NeoGrowth Credit Private Limited: Rating confirmed as final for PTCs backed by MSME business loan receivables issued by Vayu Trust June 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Vayu Trust June 2024	Series A1 PTC	95.99	[ICRA]A(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In June 2024, ICRA had assigned provisional rating to the pass-through certificates (PTCs) issued by Vayu Trust June 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 110.33 crore (pool receivables of Rs 138.83 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	Vayu Trust June 2024
Payout month	August 2024
Months post securitisation	2
Series A1 PTC amortisation	3.61%
Cumulative prepayment rate	0.74%
Cumulative collection efficiency ¹	95.77%
Loss-cum 0+ days past due (dpd) ²	8.22%
Loss cum 30+ dpd ³	0.00%
Loss cum 90+ dpd ⁴	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

Transaction structure

As per the transaction structure, the tenure of the pool has been 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.

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

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, 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 current pool as on cut-off date is granular and basis the eligibility criteria the follow-on pools are also expected to be granular. The initial pool has no obligor exceeding 1.4% 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. 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 7.25%, 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	Vayu Trust June 2024
Originator	NeoGrowth Credit Private Limited
Servicer	NeoGrowth Credit Private Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	DCB Bank
Collection and payout account bank	ICICI 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 ~5.5 times the estimated loss in the pool.

Rating sensitivities

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 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 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 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 which merchants have point of sales terminals. The assets under management (AUM) stood at Rs. 2,792 crore (own books) as on June 30, 2024.

Key financial indicators

NCPL	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	363	383	601
Profit after tax	-39	17	71
Total managed assets	1,852	2,250	3,113
GS3	12.9%	3.2%	3.7%
CRAR	23.2%	32.7%	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

Sr. No.	Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					October 08, 2024	June 30, 2024			
1	Vayu Trust June 2024	Series A1 PTC	95.99	95.99	[ICRA]A(SO)	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	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
Vayu Trust June 2024	Series A1 PTC	June 26, 2024	11.25%	June 14, 2029	95.99	[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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Branches



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