February 13, 2025

NeoGrowth Credit Private Limited: Rating watch revised to rating watch with negative implications for PTCs issued under an MSME business loans securitisation transaction

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
Chanakya-3 Trust May 2024	PTC Series A1	46.78	NA	16.88	[ICRA]A(SO); rating watch revised to rating watch with negative implications from rating watch with developing implications

**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)}. NCPL is also the servicer for the transaction.

In August 2024, ICRA had placed the rating on rating watch with developing implications because 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 the provisional rating due to inadvertent oversight by the stakeholders.

In this rating exercise, the rating watch has been revised to rating watch with negative implications given the weaker-than-expected performance of the pool with the last 3-month average collection efficiency at ~74%. The roll-forward to the harder delinquency buckets has been high as collections from overdue contracts remain subdued and thus 90+dpd has increased to 8.3% as on January 2025 payout date from 2.9% as on November 2024 payout date. Nonetheless, the 0+dpd has stabilised at about 16% of the initial pool principal for the last three months. The breakeven collection efficiency continues to remain lower than the actual collection level observed in the pool. ICRA will continue to monitor the performance of the pool and the rating watch will be resolved on basis of future collection efficiency and delinquency movements.

Pool performance summary

Parameter	Chanakya-3 Trust May 2024
Payout month	January 2025
Months post securitisation	8
Pool amortisation (as % of initial pool principal)	56.08%
PTC Amortization - PTC Series A1	63.92%
Cumulative collection efficiency[1]	83.96%
Loss-cum-0+ (% of initial pool principal)[2]	16.41%
Loss-cum-30+ (% of initial pool principal)[3]	11.51%
Loss-cum-90+ (% of initial pool principal)[4]	8.26%
Cumulative cash collateral (CC) utilisation	0.00%
Cumulative prepayment rate	23.59%

[1] (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)
[2] POS on contracts aged 0+ dpd / POS on the pool at the time of securitization
[3] POS on contracts aged 30+ dpd / POS on the pool at the time of securitization
[4] POS on contracts aged 90+ dpd / POS on the pool at the time of securitization

Breakeven collection efficiency[5] for PTC Series A1	59.81%
CC (% of balance pool)	6.83%
Principal subordination (% of balance pool) PTC Series A1	27.70%
Excess interest spread (EIS; % of balance pool) for PTC Series A1[6]	11.79%

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.

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 cash collateral increasing to 6.8% of the balance pool compared to 3.0% at the time of initial rating exercise. Further internal credit support is also available through principal subordination and excess interest spread (EIS). Additionally, there has been nil CC utilisation in the pool in any of the payouts.

Servicing capability of NCPL – The company has adequate processes for servicing the loan accounts in the securitised pool. It has demonstrated adequate track record of collections and recovery across a wide geography and multiple economic cycles.

Credit challenges

Relatively weak collection efficiency and rising delinquencies in harder buckets – The pool has seen a dip in collections in recent months with monthly collection efficiency at ~75% as on January 2025 payout month. The roll-forward to the harder delinquency buckets has been high as collections from overdue contracts remain subdued given the unsecured nature of the contracts.

Risks associated with lending business – The pool's performance 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. The pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class in which 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 9.50%, 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

[5] *(Balance cash flows payable to investor – CC available)/Balance pool cash flows*

[6] *(Pool cash flows – Cash flows to PTC A)/Pool principal outstanding*

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 Bank	RBL Bank
Collection and payout account bank	ICICI Bank

Liquidity position: Adequate

The liquidity for PTC Series A1 is adequate after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~2.0 times the estimated loss in the pool.

Rating sensitivities

Positive factors: The rating could be upgraded if the collection efficiency improves from the current levels resulting in reduction in the delinquencies, and thus an increase in the cover available for future investor payouts from credit enhancement.

Negative factors: The rating could be downgraded if the collections were to decline further from the current levels resulting in reduced cushion from the breakeven collection efficiency. 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 January 2025 (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
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. 2,916 crore (own books) as on September 30, 2024.

Key financial indicators

Indicators	FY2023 Audited	FY2024 Audited	H1FY2025 Provisional
Total income	383	601	385
Profit after tax	17	71	13
Total AUM	1,852	2,750	2,881
GS3	3.2%	3.7%	5.0%
CRAR	23.2%	28.5%	27.0%

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 Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025			Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					Feb 13,2025	Aug 13,2024	May 27,2024	-	-	-
1	Chanakya-3 Trust May 2024	PTC Series A1	46.78	16.88	**[ICRA]A(SO);** Rating watch with Negative implications	**[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 Rated Amount (Rs. crore)	Current Rating
Chanakya-3 Trust May 2024	PTC Series A1	May 22,2024	11.50%	September 11, 2026	16.88	[ICRA]A(SO); rating watch with negative 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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