March 15, 2023

NeoGrowth Credit Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture	265	265	[ICRA]BBB (Stable); Reaffirmed
Long-term Fund-based Bank Lines	64.77	89.77	[ICRA]BBB (Stable); Assigned and Reaffirmed
Total	**329.77**	**354.77**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings of NeoGrowth Credit Private Limited (NeoGrowth) factors in the improved outlook on the asset quality and profitability apart from capitalisation supported by recent equity infusion. NeoGrowth had witnessed stress in the portfolio during the pandemic with a significant portion of loan getting restructured (31% of asset under management - AUM as on March 31, 2021). With collections and write-offs the restructured book reduced to 2% of the AUM as on December 31, 2022. The headline asset quality numbers also improved with GNPA and NNPA at 5.2% and 2.7% as on December 31, 2022. Accordingly, ICRA expects the credit costs for the company to decline from elevated levels seen during FY2021 and FY2022. The profitability is also expected to be supported by lower interest reversals and better operating efficiency with the scale-up in the portfolio. NeoGrowth raised equity of Rs. 210 crore (including CCDs of Rs. 50 crore) from the existing and new investors in 9M FY2023, resulting in an improved net worth and adequate capitalisation with a gearing of 2.0x as on December 31, 2022. The company continues to have a relatively diverse funding mix, with funds raised through overseas investors, in addition to loans from non-banking financial companies (NBFCs) and banks. ICRA also takes comfort from the management team's long-standing experience and domain expertise in the retail/SME lending business.

The rating, however, remains constrained by the subdued though improving profitability and the inherent risk associated with unsecured lending and moderate borrower profile. While the company's focus on the largely untapped small and medium-sized retailers is likely to support the yield on assets, its profitability and capitalisation will remain vulnerable to asset quality shocks, given the unsecured nature of assets.

Key rating drivers and their description

Credit strengths

Adequate capitalisation supported by equity raise – While the company has turned profitable recently, its capitalisation has been supported by frequent capital raise by the entity. The company had raised Compulsory Convertible Debentures (CCDs) of Rs. 66.2 crore in September 2021 and Rs. 50 crore in June 2022 (largely converted to Compulsory Convertible Preference Shares (CCPs) in Q3 FY2023). Further, in December 2022, it raised an equity of Rs. 160 crore from FMO, the Dutch entrepreneurial development bank. Consequently, the net worth improved to Rs. 583 crore as on December 31, 2022, with a gearing of 2.0x. The company's capitalisation has been further supported by the expected improvement in profitability to meet the growth plans in the short to medium term. However, in the event of higher growth ICRA expects the company to raise further equity while ensuring the gearing remains below 4x.

Relatively diverse sources of funding – The company has raised funds from a relatively diverse set of lenders, including overseas lenders and multilateral agencies in addition to loans from NBFCs and banks. The company raised Rs. 592 crore of funds from 12 lenders (existing as well as new) in 9M FY2023 at an average cost of 12-13%. While the borrowings are long term in nature, the loans are of a relatively shorter tenure, thereby resulting in adequate liquidity surplus in the shorter term.

Credit challenges

Moderate borrower profile; improvement in asset quality – NeoGrowth's asset quality deteriorated in FY2021 and FY2022 due to the impact of the pandemic. The Gross NPA and Net NPA improved to 5.2% and 2.7% respectively as on December 31, 2022 supported by the high write-offs. During the pandemic, the company restructured a significant portion of its loan book (restructured book of Rs. 408 crore, 31% of AUM as on March 31, 2021). With collections and write-offs, the restructured book reduced to 2% (Rs. 31 crore) of the loan book as on December 31, 2022 and is adequately provided at 43%. Of the current AUM of Rs. 1,630 crore as on 31st December'2022, the book originated post-Covid (April 01, 2020) comprised 95% and has an average collection efficiency[1] of ~97% on standard portfolio and ~40% on sub-standard portfolio. Given the reduction in the stressed assets, the asset quality and credit costs are likely to remain lower than the recent past. Further, support is expected from recoveries from the existing pool of written-off accounts (Rs. 27.7 crore recovered in 9M FY2023. The write-off pool stood at Rs. 413 crore as of December 31, 2022). ICRA, however, notes the inherent risk in the portfolio due to unsecured nature of the loans and the moderate credit profile of the borrowers. The ability to maintain asset quality and contain credit costs would remain key for the improved profitability.

Weak profitability, through improving – The company reported a net profit of Rs. 7 crore in 9M FY2023 after reporting significant losses of Rs. 39 crore in FY2022 and Rs. 42 crore in FY2021. The profitability for the company was impacted in FY2021 and FY2022 largely due to the high credit costs and limited portfolio growth amid the Covid-19 pandemic. Due to reversal of interest income on write-offs and stage 3 assets, the net interest margins (NIMs) have been lower at ~10-12% since FY2021. While the write-offs remained elevated in 9M FY2023 also, the same has been partly supported by recoveries, thereby resulting in a reduction in the overall credit costs (3.8% of AMA in 9M FY2023). Operating expenses increased to 7.1% of AMA during 9M FY2023 (6.7% in FY2022) with the investments made for the purpose of growth and expansion. ICRA expects the profitability to improve, going forward, supported by the growth in the loan book, thereby driving higher operating efficiency and lower credit costs.

Liquidity position: Adequate

The company has repayment obligations of Rs. 457 crore (principal + interest) and operating expenses of Rs. 101 crore for the next six months till June 2023. As on December 31, 2022, the company had Rs. 170 crore of cash and liquid investments and unutilised bank lines of Rs. 43 crore. Liquidity is supported by the inflows from the loan book and the company did not have any cumulative mismatches in the less-than-1-year tenor in the structural liquidity statement (SLS) as of September 30, 2022. To further support its liquidity requirement and disbursals for the next six months, the company plans to raise funds of Rs. 660 crore.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the rating if the company shows an improvement in the asset quality coupled with track record of profitable growth on a sustained basis.

Negative factors – ICRA could revise the outlook to Negative or downgrade the rating if there is a sustained and significant deterioration in the asset quality and earnings profile and a sustained increase in the gearing to over 4x.

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[1] *Collection efficiency defined as Actual and Overdue collection divided by actual collections due*

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

NeoGrowth Credit Private Limited is a non-deposit taking and systematically important non-banking financial company (NBFC) providing loans to SMEs, and it commenced its operations in FY2013. The company is 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), West Bridge Crossover Fund, Trinity Inclusion Ltd. (Leapfrog), Mr. Arun Nayyar (MD & CEO) IIFL Seed Ventures Fund and FMO - The Dutch entrepreneurial development bank. Prior to setting up NeoGrowth, the promoters had founded and managed Venture Infotek, that provided end-to-end card payment processing solutions for banks that issue credit cards and those with whom the merchants have the point-of-sales terminals.

In FY2022, the company posted losses of Rs. 39 crore on total asset base of Rs. 1,653 crore compared to losses of Rs. 42 crore on total asset base of Rs. 1,706 crore in FY2021. In 9M FY2023 the PAT was Rs. 7 crore on an asset base of Rs. 1,836 crore.

Key financial indicators (audited)

Company Name	FY2020	FY2021	FY2022	9M FY23[&]
Total income	337	313	363	280
Profit after tax	(3)	(42)	(39)	7
Net worth	380	340	303	583
Loan book	1,352	1,328	1,559	1,536
Total assets	1,507	1,706	1,653	1,836
Return on assets	-0.2%	-2.6%	-2.3%	0.5%
Return on net worth	-0.8%	-11.6%	-12.3%	2.2%
Gross gearing (times)	2.8	3.8	4.3	2.0
Gross NPA %	3.0%	6.2%	12.9%	5.2%
Net NPA %	0.8%	2.8%	5.8%	2.7%
Solvency (Net NPA/Net worth)	2.6%	9.9%	26.1%	6.6%
CRAR	26.3%	22.3%	23.2%	35.7%

Source: Company, ICRA Research; [&]Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore
[#]Total income including non-interest income

Status of non-cooperation with previous CRA: Not applicable

Any other information:

NeoGrowth faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure.

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2023 (Rs. crore)	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
					Date & Rating in FY2023	Date & Rating in FY2023	Date & Rating in FY2023	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Mar 15, 2023	Mar 09, 2023	Jul 04, 2022	Apr 11, 2022	Apr 14, 2021	-	Feb 26, 2020	Jan 13, 2020
1	Non-convertible Debenture Programme	Long Term	200.0	115.80	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (Negative)					
2	Non-convertible Debenture Programme	Long Term	65.0	65.0	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-convertible Debenture Programme	Long Term	-	-	-	[ICRA]BBB reaffirmed & withdrawn; outlook revised to Stable from Negative	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4	Non-convertible Debenture Programme	Long Term	-	-	-	-	[ICRA]BBB (Negative); reaffirmed and withdrawn	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
5	Long-term Fund Based Bank Lines	Long Term	89.77	51.13	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
6	Commercial Paper Programme	Short Term		-	-	-	-	-	-	-	-	[ICRA]A2; withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture	Very Simple
Long-term Fund Based Bank Lines	Simple

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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Not yet placed	Non-convertible Debenture	-	-	-	64.20	[ICRA]BBB (Stable)
INE814O07394		Feb-28-2023	13.80%	Feb-28-2026	25.00	[ICRA]BBB (Stable)
INE814O07360		Jul-19-2022	12.90%	Jul-19-2026	80.00	[ICRA]BBB (Stable)
INE814O07378		Aug-26-2022	12.25%	Aug-26-2027	30.80	[ICRA]BBB (Stable)
INE814O07238		Aug-28-2017	12.50%	Aug-28-2023	65.00	[ICRA]BBB (Stable)
NA	Long-term Fund Based Bank Lines	-	-	-	89.77	[ICRA]BBB (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – NA

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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.

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