

June 21, 2023

NeoGrowth Credit Private Limited: Rating reaffirmed for fund-based bank lines; rating assigned/reaffirmed for NCD programme

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---------------------------------|--------------------------------------|-------------------------------------|--------------------------------|
| Non-convertible debenture (NCD) | - | 150 | [ICRA]BBB (Stable); assigned |
| NCD | 265 | 265 | [ICRA]BBB (Stable); reaffirmed |
| Long-term fund-based bank lines | 89.77 | 89.77 | [ICRA]BBB (Stable); reaffirmed |
| Total | 354.77 | 504.77 | |

*Instrument details are provided in Annexure I

Rationale

The rating factors in the improved outlook on NeoGrowth Credit Private Limited's (NeoGrowth) asset quality and profitability apart from the capitalisation, supported by the recent equity infusion. NeoGrowth had witnessed stress in its portfolio during the Covid-19 pandemic with a significant portion of its loans getting restructured (31% of assets under management (AUM) as on March 31, 2021). Driven by collections and write-offs, the standard restructured book reduced to 0.1% of the AUM as on March 31, 2023. The headline asset quality numbers also improved with gross non-performing advances (GNPAs) and net NPAs (NNPAs) at 4.3% and 2.3%, respectively, as on March 31, 2023. 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 compulsory convertible debentures (CCDs) of Rs. 50 crore) from the existing and new investors in FY2023, resulting in an improved net worth and adequate capitalisation with a gearing of 2.5x as on March 31, 2023. 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/small and medium-sized enterprise (SME) lending business.

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

Key rating drivers and their description

Credit strengths

Adequate capitalisation supported by equity raise – While the company turned profitable recently, its capitalisation has been supported by frequent capital raising. It had raised 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 equity of Rs. 160 crore from FMO, the Dutch entrepreneurial development bank. Consequently, the net worth improved to Rs. 557 crore as on March 31, 2023, with a gearing of 2.5x. The company's capitalisation has been further supported by the expected improvement in profitability to meet the short-to-medium-term growth plans. However, in the event of higher growth, ICRA expects NeoGrowth 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. It raised Rs. 1,149 crore from 17 lenders (existing as well as new) in 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 GNPA's and NNPA's improved to 4.3% and 2.3%, respectively, as on March 31, 2023, supported by high write-offs. During the pandemic, the company had restructured a significant portion of its loan book (restructured book of Rs. 408 crore; 31% of AUM as on March 31, 2021). Driven by collections and write-offs, the standard restructured book reduced to 0.1% (Rs. 2 crore) of the loan book as on March 31, 2023. The book originated post-Covid (April 01, 2020) comprised 89% of the current AUM of Rs. 1,852 crore, as on March 31, 2023, with an average collection efficiency¹ of ~97% on the standard portfolio. Given the reduction in the stressed assets, the asset quality and credit costs are likely to remain lower compared to the recent past. Further, support is expected from recoveries from the existing pool of written-off accounts (Rs. 37.8 crore recovered in FY2023; the written-off pool stood at Rs. 416 crore as of March 31, 2023). ICRA, however, notes the inherent risk in the portfolio due to the unsecured nature of the loans and the moderate credit profile of the borrowers. The ability to maintain the asset quality and contain credit costs would remain key for improving the profitability.

Weak, though improving, profitability – The company reported a net profit of Rs. 17 crore in FY2023 after reporting significant losses of Rs. 39 crore in FY2022 and Rs. 42 crore in FY2021. Its profitability was impacted in FY2021 and FY2022 largely due to the high credit costs and limited portfolio growth amid the pandemic. Due to the 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 write-offs remained elevated in FY2023 as well, the same was partly supported by recoveries, thereby resulting in a reduction in the overall credit costs (3.7% of average managed assets (AMA) in FY2023). 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

NeoGrowth has repayment obligations of Rs. 481 crore (principal + interest) for the 6-month period till November 2023. As on May 31, 2023, it had Rs. 142 crore of cash and liquid investments and unutilised bank lines of Rs. 43 crore. Liquidity is supported by 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 March 31, 2023. To further support its liquidity requirement and disbursements for the next six months, NeoGrowth plans to raise funds of Rs. 860 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 along with a 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.

¹ Collection efficiency is defined as actual and overdue collections 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, which commenced operations in FY2013, is a non-deposit taking systemically important non-banking financial company (NBFC) providing loans to 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), West Bridge Crossover Fund, 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 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 whom merchants have point of sales terminals.

In FY2023, the company reported a profit after tax (PAT) of Rs. 17 crore on a total asset base of Rs. 2,032 crore compared to a loss of Rs. 39 crore on a total asset base of Rs. 1,653 crore in FY2022.

Key financial indicators (audited)

| NeoGrowth Credit Private Limited | FY2020 | FY2021 | FY2022 | FY2023 |
|----------------------------------|--------|--------|--------|--------|
| Total income [#] | 337 | 313 | 363 | 383 |
| Profit after tax | (3) | (42) | (39) | 17 |
| Net worth | 380 | 340 | 303 | 557 |
| Loan book | 1,352 | 1,328 | 1,559 | 1,719 |
| Total assets | 1,507 | 1,706 | 1,653 | 2,032 |
| Return on assets | -0.2% | -2.6% | -2.3% | 0.9% |
| Return on net worth | -0.8% | -11.6% | -12.3% | 4.0% |
| Gross gearing (times) | 2.8 | 3.8 | 4.3 | 2.5 |
| Gross NPA % | 3.0% | 6.2% | 12.9% | 4.3% |
| Net NPA % | 0.8% | 2.8% | 5.8% | 2.3% |
| Solvency (Net NPA/Net worth) | 2.6% | 9.9% | 31.5% | 6.7% |
| CRAR | 26.3% | 22.3% | 23.2% | 32.7% |

Source: Company, ICRA Research; ^aProvisional 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 rating would face pressure.

Rating history for past three years

| | Instrument | Current Rating (FY2024) | | | | Chronology of Rating History for the Past 3 Years | | | | | | |
|---|-------------------------------------|-------------------------|--------------------------|---|-------------------------|---|---|--|----------------------|-------------------------|-------------------------|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of May 31, 2023 (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | | | | Date & Rating in FY2022 | Date & Rating in FY2021 | |
| | | | | | Jun 21, 2023 | Mar 15, 2023 | Mar 09, 2023 | Jul 04, 2022 | Apr 11, 2022 | Apr 14, 2021 | - | |
| 1 | Non-convertible debenture programme | Long term | 150.0 | - | [ICRA]BBB (Stable) | | | | | | | |
| 2 | Non-convertible debenture programme | Long term | 200.0 | 170.80 | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Negative) | | | | |
| 3 | Non-convertible debenture programme | Long term | 65.0 | 65.0 | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Negative) | [ICRA]BBB (Negative) | [ICRA]BBB (Negative) | | - |
| 4 | 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) | | - |
| 5 | Non-convertible debenture programme | Long term | - | - | - | - | - | [ICRA]BBB (Negative); reaffirmed and withdrawn | [ICRA]BBB (Negative) | [ICRA]BBB (Negative) | | - |
| 6 | Long-term fund-based bank lines | Long term | 89.77 | 32.05 | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Negative) | [ICRA]BBB (Negative) | [ICRA]BBB (Negative) | | - |
| 7 | Commercial paper programme | Short term | - | - | - | - | - | - | - | - | | - |

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 | - | - | - | 179.20 | [ICRA]BBB (Stable) |
| INE814O07402 | | Mar-21-2023 | 12.75% | Mar-25-2024 | 35.00 | [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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