

December 30, 2024

NeoGrowth Credit Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD	981.00	981.00	[ICRA]BBB+ (Stable); reaffirmed
NCD	105.00	0.00	[ICRA]BBB+ (Stable); reaffirmed and withdrawn
Long-term fund-based bank lines	379.77	379.77	[ICRA]BBB+ (Stable); reaffirmed
Commercial paper programme	100.00	100.00	[ICRA]A2; reaffirmed
Total	1,565.77	1,460.77	

*Instrument details are provided in Annexure I

Rationale

The ratings factor in NeoGrowth Credit Private Limited's (NeoGrowth) adequate capitalisation profile, supported by equity infusions. It reported a net worth of Rs. 674 crore with a managed gearing of 3.6x as on September 30, 2024 (3.4x as on March 31, 2024). Given the planned growth in the assets under management (AUM), the company is likely to require capital in the next 12-18 months while maintaining a managed gearing of ~4x.

NeoGrowth's profitability has declined with an annualised return on managed assets (RoMA) of 0.8% in H1 FY2025 compared to 2.7% in FY2024. This was due to higher credit costs on account of the weakening in the asset quality indicators. While the profitability is likely to remain subdued in FY2025, ICRA expects it to improve subsequently with AUM growth and a moderation in credit costs. The AUM increased by 27% to Rs. 2,916 crore as on September 30, 2024 from Rs. 2,298 crore as on September 30, 2023 (Rs. 2,750 crore as on March 31, 2024). NeoGrowth continues to have a relatively diverse set of lenders, including overseas lenders, development finance institutions, alternative investment funds and multilateral agencies in addition to loans from non-banking financial companies (NBFCs) and banks. ICRA also takes comfort from the management's long-standing experience and domain expertise in the retail/small and medium-sized enterprise (SME) lending business.

However, the ratings remain constrained by the inherent risk associated with unsecured lending and the moderate borrower profile. Given the stress in the unsecured lending segment, the company's asset quality was impacted in H1 FY2025 with gross and net stage 3 of 5.0% and 2.3%, respectively, as on September 30, 2024 (3.7% and 1.5%, respectively, as on March 31, 2024), leading to an increase in the annualised credit costs to 9.7% of AUM in H1 FY2025 from 6.5% in FY2024. While NeoGrowth'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.

The Stable outlook is driven by ICRA's expectation that NeoGrowth will continue to grow its scale of operations with an improvement in its profitability. However, continued pressure on the asset quality and credit costs beyond FY2025, leading to sustained weakness in the profitability, will be a credit negative. Moreover, ICRA expects the managed gearing to be maintained below 4x, supported by capital infusions as demonstrated in the past.

ICRA has simultaneously reaffirmed and withdrawn the long-term rating outstanding on the Rs. 105-crore non-convertible debentures (NCDs) as the instruments have been fully repaid. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Adequate capitalisation supported by equity raise – The company’s capitalisation remains adequate with a net worth of Rs. 674 crore and a managed gearing of 3.6x as on September 30, 2024. This was supported by the capital raising of Rs. 276.25 crore in the last two years. NeoGrowth had issued compulsory convertible debentures (CCDs) of Rs. 66.2 crore in September 2021 and Rs. 50.0 crore in June 2022 (fully converted to compulsory convertible preference shares (CCPS) in FY2024). It raised equity of Rs. 160.0 crore in December 2022 from FMO, the Dutch entrepreneurial development bank. With the moderation in internal accruals, the company slowed down its growth in H1 FY2025. Going forward, NeoGrowth would require capital to meet its growth plans while ensuring that the managed gearing remains below 4x.

Increase in scale of operations while curtailing credit costs to drive the profitability – NeoGrowth’s earnings profile improved in FY2024 with a profit after tax (PAT) of Rs. 71 crore (RoMA of 2.7%) compared to Rs. 17 crore in FY2023 (RoMA of 0.8%). The improvement was supported by the higher net interest margin (NIM), given the lower reversal of interest income with reduced write-offs, and the improved operating efficiency with the growth in the loan book. However, the profitability declined in H1 FY2025 with a PAT of Rs. 13 crore (RoMA of 0.8%) compared to Rs. 29 crore in H1 FY2024 (RoMA of 2.2%). It was adversely impacted by higher credit costs due to the weakening in the asset quality indicators. While the profitability is likely to remain subdued in FY2025, ICRA expects it to improve in FY2026, though a sustained weakness in the asset quality and profitability, constraining the company’s ability to grow the AUM, will be a credit negative.

Credit challenges

Asset quality under pressure; moderate borrower profile – NeoGrowth’s asset quality deteriorated with gross and net stage 3 assets of 5.0% and 2.3%, respectively, as on September 30, 2024 (3.7% and 1.5%, respectively, as on March 31, 2024). Retail loans have been under stress in the last two quarters, especially in the lower ticket size book. With the increased stress, collections were impacted, leading to higher write-offs. Including annualised write-offs in H1 FY2025, the gross stage 3 stood at 11.2% as on September 30, 2024 (7.6% as on March 31, 2024). NeoGrowth has also accelerated the provisioning with the overall expected credit loss (ECL) of 5.6% of the AUM as on September 30, 2024. The ability to improve the asset quality and contain the credit costs would remain key for increasing the profitability.

The company provides unsecured business loans (working capital financing) with an average ticket size of ~Rs. 14 lakh to small and medium-sized retailers. Repayments are largely linked to the daily sales collections (accounting for ~62% of the loan book as on September 30, 2024). The balance portfolio comprises supply chain financing to micro, small, and medium enterprises (MSMEs) with an average ticket size of Rs. 23 lakh. ICRA notes the inherent risk in the portfolio due to the moderate credit profile of the borrowers, who are highly vulnerable to downturns in economic cycles. Further, a large part of the AUM (96%) represents unsecured lending, impeding recoveries from the harder delinquency buckets.

Liquidity position: Adequate

NeoGrowth has repayment obligations of Rs. 866 crore (principal + interest) for the 6-month period till March 2025. As on September 30, 2024, it had Rs. 214 crore of cash and liquid investments and unutilised bank lines of Rs. 27 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 on September 30, 2024.

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 they do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure. ICRA notes that NeoGrowth was in breach of some financial covenants with its lenders

and has received temporary relaxation /waivers/amendments from a majority of lenders for the same as on 30th September'2024.

Rating sensitivities

Positive factors – The ratings could be upgraded on a significant improvement in the company's scale of operations along with a consistent increase in its profitability.

Negative factors – Pressure on the ratings could arise on a sustained and significant deterioration in the asset quality and earnings profile and a continued increase in the managed gearing to more than 4x.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating methodology for non-banking finance companies Policy on withdrawal of credit ratings
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. It 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). Before setting up NeoGrowth, the founders had established and managed Venture Infotek, which provided end-to-end card payment processing solutions to banks that issue credit cards and with whom merchants have point of sales terminals.

Key financial indicators (audited)

NeoGrowth Credit Private Limited	FY2023	FY2024	H1 FY2025
Total income	383	601	385
PAT	17	71	13
Total managed assets	2,250	3,113	3,366
Return on managed assets	0.8%	2.7%	0.8%
Reported gearing (times)	2.5	3.3	3.5
Managed gearing (times)	2.8	3.4	3.6
Gross NPA	4.3%	3.7%	5.0%
CRAR	32.7%	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

Instrument	Current (FY2025)					Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Dec 30, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short term	100.00	[ICRA]A2	08-MAY-2024	[ICRA]A2	15-FEB-2024	[ICRA]A2	-	-	-	-
				09-AUG-2024	[ICRA]A2	-	-	-	-	-	-
NCD programme	Long term	500.00	[ICRA]BBB+ (Stable)	08-MAY-2024	[ICRA]BBB+ (Stable)	21-JUN-2023	[ICRA]BBB (Stable)	11-APR-2022	[ICRA]BBB (Negative)	14-APR-2021	[ICRA]BBB (Negative)
				09-AUG-2024	[ICRA]BBB+ (Stable)	15-FEB-2024	[ICRA]BBB+ (Stable)	04-JUL-2022	[ICRA]BBB (Negative)	-	-
								09-MAR-2023	[ICRA]BBB (Stable)	-	-
								15-MAR-2023	[ICRA]BBB (Stable)	-	-
NCD programme	Long term	171.00	[ICRA]BBB+ (Stable)	08-MAY-2024	[ICRA]BBB+ (Stable)	21-JUN-2023	[ICRA]BBB (Stable)	11-APR-2022	[ICRA]BBB (Negative)	14-APR-2021	[ICRA]BBB (Negative)
				09-AUG-2024	[ICRA]BBB+ (Stable)	15-FEB-2024	[ICRA]BBB+ (Stable)	04-JUL-2022	[ICRA]BBB (Negative)	-	-
								09-MAR-2023	[ICRA]BBB (Stable)	-	-
								15-MAR-2023	[ICRA]BBB (Stable)	-	-
NCD programme	Long term	310.00	[ICRA]BBB+ (Stable)	08-MAY-2024	[ICRA]BBB+ (Stable)	21-JUN-2023	[ICRA]BBB (Stable)	11-APR-2022	[ICRA]BBB (Negative)	14-APR-2021	[ICRA]BBB (Negative)
				09-AUG-2024	[ICRA]BBB+ (Stable)	15-FEB-2024	[ICRA]BBB+ (Stable)	04-JUL-2022	[ICRA]BBB (Negative)	-	-
								09-MAR-2023	[ICRA]BBB (Stable)	-	-
								15-MAR-2023	[ICRA]BBB (Stable)	-	-
Long term - others – Fund based	Long term	379.77	[ICRA]BBB+ (Stable)	08-MAY-2024	[ICRA]BBB+ (Stable)	21-JUN-2023	[ICRA]BBB (Stable)	04-JUL-2022	[ICRA]BBB (Negative)	14-APR-2021	[ICRA]BBB (Negative)

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years						
	Type	Amount rated (Rs. crore)	Dec 30, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
				09-AUG-2024	[ICRA]BBB+ (Stable)	15-FEB-2024	[ICRA]BBB+ (Stable)	09-MAR-2023	[ICRA]BBB (Stable)	-	-
				-	-			15-MAR-2023	[ICRA]BBB (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	Very Simple
Commercial paper programme	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		-	-	-	435.54	[ICRA]BBB+ (Stable)
INE814O07550	Non-convertible debenture	Nov-29-2024	11.65%	Nov-29-2026	42.00	[ICRA]BBB+ (Stable)
INE814O07543		Aug-21-2024	11.70%	Aug-21-2027	100	[ICRA]BBB+ (Stable)
INE814O07535		Jun-27-2024	12.15%	Jun-27-2029	93.76	[ICRA]BBB+ (Stable)
INE814O07527		Jun-07-2024	11.75%	Mar-07-2026	24	[ICRA]BBB+ (Stable)
INE814O07519		May-24-2024	12.00%	May-23-2026	24.9	[ICRA]BBB+ (Stable)
INE814O07501		May-17-2024	11.60%	Aug-17-2025	25	[ICRA]BBB+ (Stable)
INE814O07493		Feb-27-2024	11.75%	Feb-27-2026	65	[ICRA]BBB+ (Stable)
INE814O07485		Dec-26-2023	12.55%	Aug-26-2025	20	[ICRA]BBB+ (Stable)
INE814O07477		Sep-28-2023	11.25%	Oct-28-2024	25	[ICRA]BBB+ (Stable); withdrawn
INE814O07469		Sep-22-2023	11.25%	Dec-22-2024	30	[ICRA]BBB+ (Stable); withdrawn
INE814O07451		Sep-15-2023	11.25%	Sep-25-2024	40	[ICRA]BBB+ (Stable); withdrawn
INE814O07428		Jun-30-2023	12.00%	Dec-07-2024	10	[ICRA]BBB+ (Stable); withdrawn
INE814O07436		Jun-28-2023	12.00%	Jun-07-2026	15	[ICRA]BBB+ (Stable)
INE814O07394		Feb-28-2023	13.80%	Feb-28-2026	25	[ICRA]BBB+ (Stable)
INE814O07360		Jul-19-2022	12.90%	Jul-19-2026	80	[ICRA]BBB+ (Stable)
INE814O07378		Aug-27-2022	12.25%	Aug-26-2027	30.8	[ICRA]BBB+ (Stable)
INE814O14093		Commercial paper programme	Nov-18-2024	11.70%	Mar-05-2025	15
INE814O14085	Nov-14-2024		11.70%	Mar-10-2025	35	[ICRA]A2
INE814O14077	Oct-24-2024		11.60%	Feb-11-2025	20	[ICRA]A2
Not yet placed		-	-	7-365 days	30	[ICRA]A2
NA	Long-term fund-based bank lines	-	-	-	379.77	[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

Not applicable

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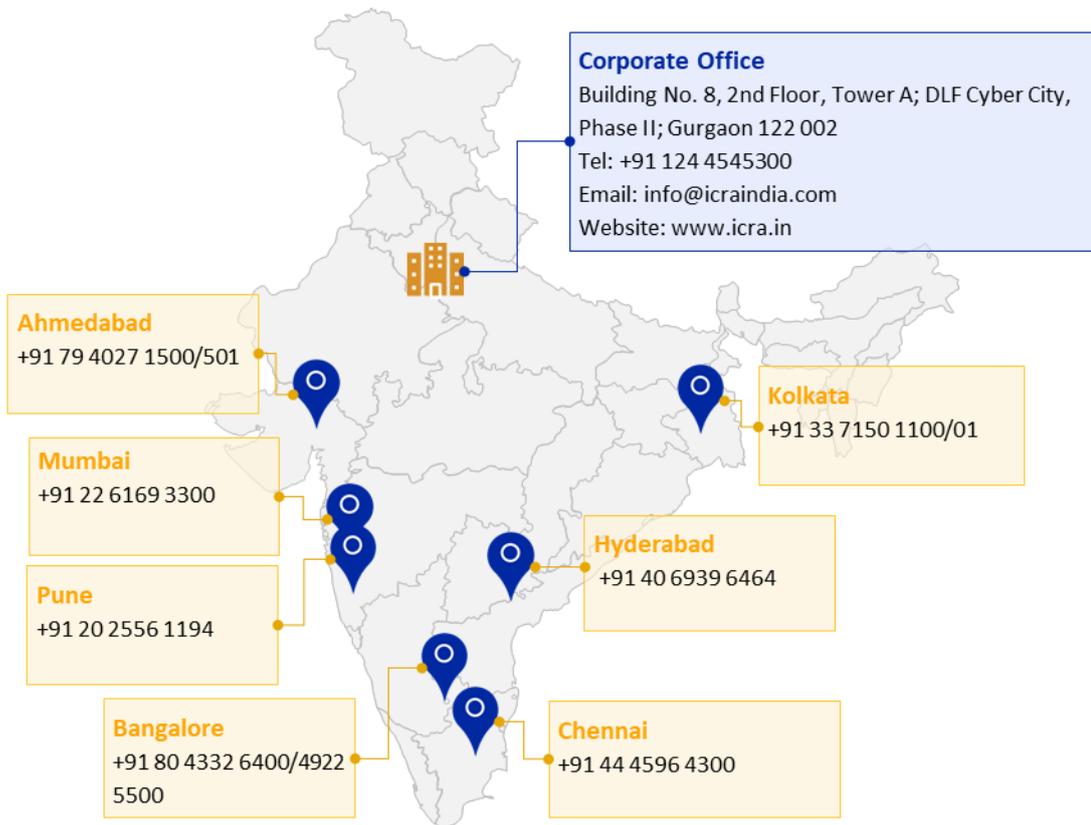
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