

February 26, 2020 <sup>Revised</sup>

## NeoGrowth Credit Private Limited: Rating withdrawn

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Lines	85.23	0.00	[ICRA]BBB (Stable); withdrawn
Long-term Bank Lines	64.77	64.77	[ICRA]BBB (Stable); outstanding
Non-convertible Debenture Programme	140.00	140.00	[ICRA]BBB (Stable); outstanding
<b>Total</b>	<b>290.00</b>	<b>204.77</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The long-term rating factors in NeoGrowth Credit Private Limited's (NCPL) scale of operations and profitability metrics while maintaining a stable liquidity position amid a weaker operating environment. ICRA notes that the company was able to post profits in FY2019 and 9M FY2020 after reporting losses in FY2018. ICRA also notes the diverse funding mix, with funds raised through non-convertible debentures (NCDs) issued to foreign investors, in addition to loans from non-banking financial companies (NBFCs) and banks. NCPL's ability to profitably grow the business while keeping the credit costs under control will be a key monitorable.

The rating also factors in the promoters' track record in the credit card payment processing segment and the management's experience in the financial services industry. The rating takes cognisance of the company's good investor profile and the regular equity infusions over the past five years. The rating also considers the daily repayment schedule of NCPL's loan products (which results in better monitoring of the repayment performance), its efficient internal controls, and efficient management information system (MIS) and risk management system.

The rating, however, remains constrained by NCPL's limited track record, its relatively untested business model in the Indian market and the risks associated with an unsecured portfolio. A sustained improvement in the profitability and credit metrics with an increasing loan book will remain a key point to monitor going forward. ICRA notes that the lower tenure and daily repayment structure of the loans, along with the transition to a more objective scorecard-based credit appraisal process, partly mitigate the risks associated with unsecured lending. However, given its limited track record and the changes in the product mix over the past three years, NCPL's evolving processes and systems are yet to be adequately tested over an economic cycle. While the company's focus on the largely untapped small and medium-sized retailer segment is likely to support its yield in the near to medium term, its ability to improve the asset quality and register good quality growth would be critical for its profitability going forward.

The rated long-term bank lines amount was reduced to Rs. 64.77 crore from Rs. 150 crore at the request of the rated entity in accordance with ICRA's policy on withdrawal and suspension ([click here for policy](#)).

## Key rating drivers and their description

### Credit strengths

**Strong promoter experience** – NCPL is promoted by Mr. Dhruv Khaitan and Mr. Piyush Khaitan, and its investors include Omidyar Network, LGT Lightstone Aspada, Khosla Impact Fund, Quona Capital, IIFL Venture Funds and LeapFrog Investments. 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 to those with whom the merchants have point-of-sales terminals. The promoters divested their stake in the company in 2010. ICRA takes comfort from the promoters' experience in the credit card processing segment and the investor profile, characterised by experience in this field through other fintech investments. ICRA also takes comfort from the new management team's long-standing experience and domain expertise in the retail/SME lending business.

**Relatively diverse sources of funding and comfortable liquidity** – The company's cost of funds reduced to 12.33% in FY2019 (12.70% in 9M FY2020) from 15.12% in FY2018, on account of the relatively lower cost of incremental borrowings (~12.75-13%). 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. ICRA also notes the company's diverse funding mix, with funds raised through NCDs issued to foreign investors, in addition to loans from NBFCs and banks. NCPL raised Rs. 422 crore of funds during January 2019 to December 2019 from existing as well as new lenders. ICRA notes that the company did not tap the securitisation market, despite this liquidity option being available.

**Adequate capitalisation profile with low gearing level** – The company has raised equity consistently over the past few years. The latest round of capital infusion was in Q4 FY2018, when it raised Rs. 300 crore from existing investors and a new investor. Also, with NCPL reporting net profits in 9M FY2020, the internal accruals are expected to improve going forward. Despite the accumulated losses of Rs. 104.25 crore, the company's net worth stood at Rs. 391.71 crore as on December 31, 2019, translating into a total CAR of 33.10% (35.73% as of March 2019). NCPL's gearing was comfortable at 2.29 times (Ind-AS) as on December 31, 2019 (1.82 times as of March 2019).

### Credit challenges

**Limited track record with focus on unsecured lending; business model relatively untested in India** – NCPL, which started its operations in FY2013, provides working capital finance to small and medium-sized retailers with sales through credit or debit card transactions. The company lends to these retailers against future card receivables. The clients repay in the form of daily instalments. NCPL currently operates through 25 locations. Its portfolio growth moderated and stabilised in 9M FY2020 to Rs. 1,268.89 crore as on December 31, 2019 from Rs. 1,012 crore as on December 31, 2018, in the wake of a weaker operating environment for its customers. This is partly a result of the general slowdown in the economy as well as the ongoing confidence crisis on the funding side for all NBFCs.

**Asset quality indicators yet to stabilise** – The company reported gross NPAs of 5.32% as on December 31, 2019 (4.95% as on March 31, 2019). With its transition to Ind-AS accounting norms, the company's provision coverage ratio (PCR) improved to 61.70% as on December 31, 2019 (43.55% as on March 31, 2019) and it reported lower net NPAs of 2.11% as on December 31, 2019 (2.86% as on March 31, 2019). The write-offs remained high in FY2019 as well as 9M FY2020, with the gross NPA plus write-offs, as a percentage of the gross loan book, at ~10% in FY2019 and 8.56% in 9M FY2020 (~11% in FY2018). The asset quality is expected to improve with lower write-offs and GNPA's stabilising at ~4.75-5.25% on account of the better quality of loan origination in FY2020, as well as more robust and streamlined collection practices. While the company's focus on the largely untapped small and medium-sized retail segment is likely to support its yields in the near

to medium term, its ability to maintain the asset quality while growing at an aggressive pace would be critical for profitability going forward.

**Subdued but improving profitability** – NCPL reported a net profit of Rs. 4.32 crore in FY2019 (RoE of 1%) as the impact of demonetisation and implementation of GST lingered. Nevertheless, ICRA notes that the company reported a net profit of Rs. 6.45 crore in 9M FY2020. The company’s credit cost moderated but remained elevated at 4.45% in FY2019 vis-à-vis 6.31% in FY2018 and stood at 4.85% in 9M FY2020. The operating efficiency also improved with the cost-to-income ratio improving to 76.91% in FY2019 and further to 60.37% in 9M FY2020 from 84.25% in FY2018. The operating expense ratio stood at 12.38% in FY2019 vis-à-vis 13.70% in FY2018 (10.35% in 9M FY2020). ICRA notes that the company has been upfronting technology expenses and the net profit could have been higher if it had followed an aggressive capitalisation of expenses accounting policy. NCPL’s profitability indicators are expected to improve in FY2020 as the credit costs continue to moderate and as the operating expenses have stabilised. The company’s ability to reduce costs further, maintain NIMs, contain credit costs and operate profitably will be an important rating consideration going forward.

**Ability to control operational risks** – NCPL’s processes and systems are yet to be tested adequately considering it has a limited track record and a large part of its portfolio growth occurred in the last couple of years. It has moved to a scorecard-based approach for risk selection, from the broader based and less objective segmentation approach earlier. Going forward, the company’s ability to control operational risks, using data intensive and automated underwriting, collection and monitoring processes, will remain a key rating monitorable.

### Liquidity position: Adequate

NCPL had a liquidity cushion of Rs. 120.68 crore in the form of unencumbered cash and cash equivalents as on December 31, 2019. The liquidity profile remains adequate in relation to the near-term debt maturities (borrowings of Rs. 104.62 crore due for maturity from December 2019 to June 2020). In addition to that, the expected inflows of Rs. 435.42 crore (from December 2019 to June 2020), given NCPL’s relatively shorter-tenure book, provide comfort. Moreover, with the company’s ability to raise funds from a diverse base, ICRA does not foresee any liquidity risk in the near term.

### Rating sensitivities

**Positive triggers** – ICRA could upgrade the rating if the company shows a track record of profitable growth in the near to medium term while maintaining the asset quality.

**Negative triggers** – Pressure on NCPL’s rating could arise if there is a continued deterioration in the asset quality from the current levels or if the leverage exceeds 4.0 times or if there is a sizeable weakening in the liquidity and earnings profile.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA’s Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">ICRA’s Policy on Withdrawal and Suspension of Credit Rating</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer

## About the company

NeoGrowth Credit Private Limited (NCPL) is a non-deposit taking and systemically important non-banking financial company that started operations in FY2013. The company is promoted by Mr. Dhruv Khaitan and Mr. Piyush Khaitan, and its investors include Omidyar Network, LGT Lightstone Aspada, Khosla Impact Fund, Quona Capital, IIFL Venture Funds and LeapFrog Investments. Prior to setting up NCPL, the promoters had founded and managed Venture Infotek, which provided end-to-end card payment processing solutions for banks that issue credit cards and those with whom the merchants have point-of-sales terminals. The promoters divested their stake in the company in 2010.

NCPL provides working capital finance to small and medium-sized retailers. The loans are extended against future credit card and debit card sales, and the repayment is in the form of daily instalments.

The company currently operates from 25 locations (as on December 31, 2019). NCPL scaled up its gross advances considerably over the past three years to Rs. 1,269 crore as on December 31, 2019 from Rs. 817 crore as on March 31, 2018. It posted a profit after tax (PAT) of Rs. 6.45 crore in 9M FY2020 on a total asset base of Rs. 1,447 crore compared to a loss of Rs. 23.60 crore on a total asset base of Rs. 1,165 crore in FY2018.

## Key financial indicators

FOR THE PERIOD / YEAR ENDED	FY2018	FY2019	9M FY2020 (Ind-AS)*
No. of months	12	12	9
Net Interest Income	129	185	159
APBT before Extraordinary Items	-24	4	20
RPAT	-23.60	4.32	6.45
Gross Advances	817	1,048	1,269
Total Assets	1,165	1,251	1,447
Net Worth	426	433	392
Total Borrowings	697	773	896
%CRAR	52.26%	35.73%	33.10%
Gearing (times)	1.67	1.82	2.29
% Net Profit/Average Total Assets	-2.64%	0.36%	0.64%
% Return on Average Net Worth	-8.10%	1.01%	2.09%
% Gross NPAs	6.19%	4.95%	5.32%
% Net NPAs	3.53%	2.86%	2.11%
Net NPA/Net Worth	6.59%	6.77%	6.60%

Amount in Rs. crore; Source: NCPL & ICRA research; \* Unaudited

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2020		FY2019		FY2018			FY2017	
					26-Feb-20	13-Jan-20	22-Mar-19	30-Nov-18	12-Sep-17	18-Aug-17	13-Jul-17	28-Nov-16	24-Aug-16
1	Non-convertible debenture programme	Long Term	140	140	[ICRA]BBB (Stable); outstanding	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable); assigned
2	Long-term bank lines	Long Term	64.77	47.11	[ICRA]BBB (Stable); outstanding	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
3	Long-term bank lines	Long Term	85.23	0.00	[ICRA]BBB (Stable); withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
NA	Long-term Bank Facilities (working capital loans/CC lines)	2016-17	-	2020-21	15.00	[ICRA]BBB (stable)
NA	Long-term Bank Facilities (term loans)	2015-16	-	2022-23	49.77	[ICRA]BBB (stable)
<b>INE814O07204</b>	Non-convertible Debenture	2016-17	12.10%	2021-22	40.00	[ICRA]BBB (stable)
<b>INE814O07212</b>	Non-convertible Debenture	2016-17	12.25%	2022-23	35.00	[ICRA]BBB (stable)
<b>INE814O07139</b>	Non-convertible Debenture	2017-18	12.80%	2021-21	65.00	[ICRA]BBB (stable)

Source: NeoGrowth Credit Private Limited

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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## Corrigendum

- List of Investors revised to Omidyar Network, LGT Lightstone Aspada, Khosla Impact Fund, Quona Capital, IIFL Venture Funds and LeapFrog Investments.

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