

## NeoGrowth Credit Private Limited

June 17, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Non-convertible Debentures (Proposed)	50.00 (Rupees Fifty crore only)	<b>CARE BBB+; Negative</b> <b>(Triple B Plus: Outlook: Negative)</b>	<b>Assigned</b>
Non-convertible Debentures	83.10 (Rupees Eighty-three crore and ten lakh only) (reduced from 115.60 crore)	<b>CARE BBB+; Negative</b> <b>(Triple B Plus: Outlook: Negative)</b>	<b>Reaffirmed</b>
Non-convertible Debentures	60.00 (Rupees Sixty crore only)	<b>CARE BBB+; Negative</b> <b>(Triple B Plus: Outlook: Negative)</b>	<b>Reaffirmed</b>
Non-convertible Debentures	105.00 (Rupees One Hundred Five crore only)	<b>CARE BBB+; Negative</b> <b>(Triple B Plus: Outlook: Negative)</b>	<b>Reaffirmed</b>
Non-convertible Debentures	62.00 (Rupees Sixty-Two crore only)	<b>CARE BBB+; Negative</b> <b>(Triple B Plus: Outlook: Negative)</b>	<b>Reaffirmed</b>
Non-convertible Debentures#	0.01 (Rupees One lakh only) (reduced from 50.80 crore)	<b>CARE BBB+; Negative</b> <b>(Triple B Plus: Outlook: Negative)</b>	<b>Reaffirmed</b>
Non-convertible Debentures	70.00 (Rupees Seventy crore only)	<b>CARE BBB+; Negative</b> <b>(Triple B Plus: Outlook: Negative)</b>	<b>Reaffirmed</b>
Non-convertible Debentures#	45.21 (Rupees Forty-Five crore and Twenty One lakhs only)	<b>CARE BBB+; Negative</b> <b>(Triple B Plus: Outlook: Negative)</b>	<b>Reaffirmed</b>
Non-convertible Debentures#	74.00 (Rupees Seventy-Four crore only)	<b>CARE BBB+; Negative</b> <b>(Triple B Plus: Outlook: Negative)</b>	<b>Reaffirmed</b>
Non-convertible Debentures	75.00 (Rupees Seventy-Five crore only)	<b>CARE BBB+; Negative</b> <b>(Triple B Plus: Outlook: Negative)</b>	<b>Reaffirmed</b>
Non-convertible Debentures	40.00 (Rupees Forty crore only)	<b>CARE BBB+; Negative</b> <b>(Triple B Plus: Outlook: Negative)</b>	<b>Reaffirmed</b>

*Details of instruments/facilities in Annexure-1*

*#Reduction is on account of repayment.*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of NeoGrowth Credit Private Limited (NCPL) continue to factor in the extensive experience of its promoter in the e-payment processing industry, experienced management team, comfortable capitalization levels with equity participation from reputed investors, comfortable liquidity profile and fairly diversified resource profile.

The ratings continues to remain constrained by weak profitability due to elevated credit costs on account of higher provisioning as well as write-off policy of the company, moderate track record of operations and relatively untested business model which has not witnessed longer economic cycles in India, and moderate geographical diversification of the loan book.

The ratings also factor in stress in the credit profile of the customers of NCPL due to the Covid-19 imposed nationwide lockdown, resulting in relatively higher proportion of Assets Under Management (AUM) being under one-time restructuring (OTR) scheme prescribed under the RBI regulatory package and the deterioration in the asset quality. Although, NCPL has seen improvement in collections over the last few months and has adequate capital buffers to absorb credit shocks, its credit costs are likely to remain at elevated levels impacting the profitability even further. CARE will monitor the asset quality performance and any substantial deterioration in the same must be supported by equity infusion as envisaged by the company to maintain gearing levels (Debt/Tangible Net-worth) below 4.5x levels.

**Impact of COVID-19:** NCPL had provided moratorium to its customers as per RBI's Covid-19 Relief Package during the period from March 2020 to August 2020. As on August 31, 2020, around 61% of the portfolio was under moratorium. Post the moratorium, NCPL has seen improvement in collections with the overall collection efficiency of around 98% during March, 2021, up from around 37% in April, 2020. NCPL did not avail any moratorium from its lenders due to adequate liquidity buffers.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

As per RBI circular in August 2020, the company provided one-time restructuring (OTR) benefit to Rs. 555 crore of portfolio during FY21. The outstanding balance of the OTR book stood at Rs. 375 crore as on April 31, 2021, representing 29% of AUM (Rs. 407 crore as on March 31, 2021, representing 31% of AUM).

In view of the second wave of the COVID-19 which caused partial restriction on movement in some states for the month of April 2021 and May 2021 led to slower disbursements as NCPL followed cautious approach for growth owing to the unprecedented economic situations. However, there was no stoppage of business as seen in the first phase of COVID-19 in Q1FY21. The overall collection efficiency stood at 88% in April 2021 and 84% in May 2021. Going forward, the growth trajectory is expected to regain from July 2021 due to relaxations of the lockdown in majority states and revival in the economic activity. Further, the company has not provided any restructuring to its clients under the RBI's extended package to SME borrowers in March and April 2021. However, considering the significant exposure of the company to the SME segment which has been impacted severely, maintaining asset quality and resultant impact on profitability is a key monitorable.

#### Rating Sensitivities

##### Positive factors: Factors that could lead to positive rating action/upgrade:

- Sustainable scaling up of operations with improvement in profitability in medium term while maintaining the asset quality
- Reasonable track record with stable profitable operations

##### Negative factors: Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality with increase in slippages from the delinquent / restructured loan portfolio on a sustainable basis
- Gearing levels (Debt/Tangible Net worth) increasing above 4.5 times
- Inability to raise equity capital within the envisaged timelines
- Deterioration in profitability on a sustained basis

#### Outlook: Negative

The rating outlook is 'Negative' on account of stress in the credit profile of the customers of NCPL due to Covid-19 with high proportion of the loan portfolio undergoing restructuring during the last financial year. The outlook may be revised to stable if the company continues to demonstrate stable collection from the restructured book and there are no slippages in asset quality in the near term and the equity infusion takes place as envisaged.

#### Detailed description of the key rating drivers

##### Key Rating Strengths

###### *Comfortable capitalization and gearing levels*

NCPL has been receiving regular capital infusion to fund its business operations in the initial phase of operations and its tangible net worth was at Rs.306 crore as on March 31, 2021. The company had comfortable capitalization levels as on March 31, 2021 with CAR ratio at 22.70% (March 31, 2020: 29.80%) against the regulatory requirement of 15%. The gearing (Debt/Tangible Net-worth) was at 4.25 times as on March 31, 2021 as compared to 3.09 times as on March 31, 2020. The management has indicated that the gearing (Debt/Net-worth) will remain below 4 times in the medium term and will raise capital when gearing level will reach close to 4x.

###### *Extensive experience of the promoter in the e-payments processing system industry and experienced management team*

NCPL is promoted by Mr. Piyush Khaitan and Mr. Dhruv Khaitan who have over two decades of experience in the e-payment processing industry. Prior to incorporating NCPL, they have founded and managed 'Venture Infotek' which was an e-payment processing company in India. The promoters are backed by strong management team. The operations of the company are headed by Mr. Arun Nayyar (Chief Executive Officer) who has experience of over 20 years in NBFC industry comprising SME lending, business development and risk management.

###### *Fairly diversified resource profile*

The resource profile largely comprised of borrowings through Non-Convertible Debentures (NCD) (constituting 68% of borrowings as on March 31, 2021), followed by borrowings largely from other NBFCs and few banks. The company also has borrowings through External Commercial Borrowings (ECB) from international investment funds and Developmental Financial Institutions (DFIs). Majority of the lenders to NCPL are DFIs and Foreign Portfolio Investors (FPI). The average cost of borrowings stood at in 11.42% FY21 as compared to 12.16% in FY20.

##### Key Rating Weaknesses

###### *Weak profitability with continued impact of Covid*

The company lends to small business owners which was severely impacted during the nation-wide lockdown imposed due to Covid-19 during FY21. During FY21, the company has reported net loss of Rs. 30.19 crore on a total income of Rs. 333.11 crore

against net loss of Rs.3.03 crore on a total income of Rs. 367.77 crore in FY20. The total income reduced by 9% in FY21 on a Y-o-Y basis mainly on account of de-growth in the portfolio outstanding. The Net interest margin also contracted during FY21 to 11.54% from 17.20% in FY20. The company has focused on improving the operating expense which has resulted in improvement in the operating expenses in FY21, although it is still on higher side. Operating expense ratio has reduced from 11.26 % in FY20 to 7.28% in FY21. On account of the above, the pre-provisioning operating profit stood at 25% of total income in FY21 as compared to 28% in FY20. The company reported higher write-off during the year amounting to Rs. 113 crore. During December 2020, the company changed the write off policy such that the OTR book to be written off at 90 D-P-D and rest of the book at 240 D-P-D. This change has elevated the write offs. Thus, due to higher write offs and provisions, the credit cost for FY21 stood at 8.10% as compared to 7.47% in FY20. CARE would continue to monitor the credit costs and its impact on the profitability and the resultant impact on the capital adequacy.

#### ***Moderate asset quality***

Majority of the loan portfolio has daily repayment mechanism which helps NCPL to track the borrower's business and analyze its repayment capability. The Gross NPA (adjusted for OTR accounts which are performing but due to non-availability of GST registration have been classified as Stage 3 assets) and Net NPA stood at 6.30% and 2.60% respectively as on March 31, 2021 as against Gross NPA and Net NPA of 2.43% and 0.53% respectively as on March 31, 2020. The Net NPA to tangible Net-worth was 10.95% as on March 31, 2021 (March 31, 2020: 2.41%). The write-offs were ~Rs.113 crore in FY21 (P.Y.: Rs.82 crore). The company takes prudent measures for recovery from the written off book and has witnessed decent recoveries over the years. The provision coverage ratio stood at 59.5% for NPA as on March 31,2021.

Adjusted Gross NPA (gross NPA plus write-offs as a percentage of the gross loan book) stood at 13.5% as on March 31, 2021 compared to 8.01% as on March 31, 2020. Delinquencies were higher in FY21 on account of COVID related disruptions witnessed by the SME players. The company is targeting to fund customer segments focusing on digital payments with entities facing end consumer in the retail chain or entities backed by linkages to higher rated corporates.

#### ***Moderate track record of operations with relatively untested business model***

NCPL got registered with RBI as a NBFC-ND in 2012 and started its business operations in August 2013. With over seven years of operations, the track record of NCPL is moderate as it has not witnessed various economic cycles. The AUM stood at Rs.1,340 crore as on March 31,2021 as compared to Rs.1352 crore as on March 31, 2020.

NCPL has a relatively unique business model as it offers collateral free loans to its customers as per their requirements, basis point-of-sale (POS) machine sales and digital sales. This business of lending to merchants is unique in India wherein an NBFC like NCPL has taken a first mover advantage with this lending solution adopted from foreign countries popularly known as 'Merchant Cash Advances (MCA)'.

#### ***Moderate geographical concentration of product profile***

The portfolio is concentrated in the southern region comprising of 50.5% of the AUM as on March 31, 2020 as compared to 49.5% of the AUM as on March 31, 2019 followed by Western region comprising 31% of the AUM as on March 31, 2020 as compared to 29.3% of the AUM as on March 31, 2019. The company has presence in 14 states with 27 branches as on March 31, 2021.

#### **Liquidity Profile - Adequate**

The liquidity profile is comfortable with no negative cumulative mismatches across buckets as on March 31,2021. The daily repayment mechanism and shorter tenure of the loan benefits NCPL to churn the money quickly which is also backed by long tenure borrowings from NBFCs, DFIs and capital market. Major source of external funding for NCPL has been in the form of non-convertible debentures (68%) which has reduced from 88% as on March 31, 2019. As on March 31,2021, the company had cumulative principal repayments of Rs.488 crore up to one year (i.e. March 31, 2022) (adjusted for call/put options) against which the company had cash and liquid investments of Rs.408 crore and receivables from loan of Rs. 808 crore upto one year. As on May 31, 2021, the unencumbered liquidity stood at Rs. 185 crore which comprises of Rs. 4.30 crore of cash and bank balance, unencumbered fixed deposit of Rs.109.80 crore, liquid mutual funds of Rs.70.90 crore. The company also maintained undrawn sanctioned cash credit lines and overdraft facilities to the tune of Rs.63.30 crore as on May 31,2021.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[CARE's Policy on Default Recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Financial Ratios-Financial Sector](#)

[Rating Methodology- Non-Banking Finance Companies](#)

### About the Company

Incorporated in September 2012, NeoGrowth Credit Private Limited (NCPL) is an RBI registered NBFC-ND, which offers customized loans to the retail and small & medium size businesses (MSME). These loans are generally extended against digital sales track record of the MSMEs. The company is promoted by the Khaitan Brothers - Mr. Dhruv Khaitan and Mr. Piyush Khaitan; and is backed by private equity investors; Omidyar Network, Lightrock, Khosla Impact Fund, Quona Capital, IIFL Venture Funds and LeapFrog Investments. The Khaitan brothers are the entrepreneurs who founded and managed Venture Infotek one of the leading e-payment processing company in India and managed merchant transactions for acquiring banks as well as credit card issuers and large loyalty programs. They sold Venture Infotek to a large European IT Service company Atos Origin in 2010. NCPL has a business model which enables automated repayment mechanism for its borrowers. NCPL has set-up a technology platform where in the repayment is done on a daily, weekly, or fortnightly basis as a certain fixed amount from daily sales.

Brief Financials (Rs. crore) (As per IND AS)	FY20 (A)	FY21 (A)
Total income	368	333
PAT	(3)	-30
Overall Gearing (times) [Debt / Tangible Net-worth]	3.09	4.25
Total Assets (adjusted for Intangible assets)	1,475	1,670
Gross NPA (%)	2.91	6.30
ROTA (%) (PAT/Average Adjusted Assets)	NM	NM

A: Audited, NM: Not Meaningful

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Not applicable

**Complexity level of various instruments rated for this company:** Annexure 3

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE814O07261	07-Aug-17	12.10%	07-Aug-22	50.60	CARE BBB+, Negative
Debentures-Non-Convertible Debentures	INE814O07147	26-Oct-17	12.33%	26-Oct-21	32.50	CARE BBB+, Negative
Debentures-Non-Convertible Debentures	INE814O07162	16-Nov-18	13.66%	16-Nov-22	60.00	CARE BBB+, Negative
Debentures-Non-Convertible Debentures*	INE814O07295	15-Feb-19	12.34%	15-Feb-23	105.00	CARE BBB+, Negative
Debentures-Non-Convertible Debentures	INE814O07188	03-Sep-19	12.00%	15-Sep-25	62.00	CARE BBB+, Negative
Debentures-Non-Convertible Debentures	INE814O07196	19-Sep-19	12.00%	13-May-23	0.01	CARE BBB+, Negative
Debentures-Non-Convertible Debentures	INE814O07220	26-Feb-20	12.35%	26-Feb-26	70.00	CARE BBB+, Negative
Debentures-Non-Convertible Debentures	INE814O07253	17-Jul-20	12.29%	13-May-24	45.21	CARE BBB+, Negative
Debentures-Non-Convertible Debentures	INE814O07287	9-Dec-20	11.68%	9-Dec-24	74.00	CARE BBB+, Negative
Debentures-Non-Convertible Debentures	INE814O07303	25-Feb-21	12.29%	13-Feb-26	41.00	CARE BBB+, Negative
Debentures-Non-Convertible Debentures	INE814O07329	18-Mar-21	14.00%	18-Mar-24	25.00	CARE BBB+, Negative
Debentures-Non-Convertible Debentures (Proposed)	-	-	-	-	9.00	CARE BBB+, Negative
Debentures-Non-Convertible Debentures	INE814O07311	19-Mar-21	14.00%	19-Mar-24	20.00	CARE BBB+, Negative
Debentures-Non-Convertible Debentures (Proposed)	-	-	-	-	20.00	CARE BBB+, Negative
Debentures-Non-Convertible Debentures (Proposed)	-	-	-	-	50.00	CARE BBB+, Negative

\* INE814O07170 was earlier ISIN, the change in ISIN as put option on this NCD was not exercised, and interest rate underwent a revision.

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Debentures-Non Convertible Debentures	LT	83.10	CARE BBB+; Negative	-	1)CARE BBB+; Negative (24-Feb-21) 2)CARE BBB+; Stable (19-Aug-20)	1)CARE BBB+; Stable (19-Aug-19)	1)CARE BBB+; Stable (29-Mar-19) 2)CARE BBB+; Stable (28-Jan-19) 3)CARE BBB+; Stable (05-Apr-18)
2.	Debentures-Non Convertible Debentures	LT	60.00	CARE BBB+; Negative	-	1)CARE BBB+; Negative (24-Feb-21) 2)CARE BBB+; Stable (19-Aug-20)	1)CARE BBB+; Stable (16-Sep-19) 2)CARE BBB+; Stable (19-Aug-19)	1)CARE BBB+; Stable (29-Mar-19) 2)CARE BBB+; Stable (28-Jan-19) 3)CARE BBB+; Stable (06-Nov-18)
3.	Debentures-Non Convertible Debentures	LT	105.00	CARE BBB+; Negative	-	1)CARE BBB+; Negative (24-Feb-21) 2)CARE BBB+; Stable (19-Aug-20)	1)CARE BBB+; Stable (19-Aug-19)	1)CARE BBB+; Stable (29-Mar-19) 2)CARE BBB+; Stable (28-Jan-19)
4.	Debentures-Non Convertible Debentures	LT	62.00	CARE BBB+; Negative	-	1)CARE BBB+; Negative (24-Feb-21) 2)CARE BBB+; Stable (19-Aug-20)	1)CARE BBB+; Stable (16-Sep-19) 2)CARE BBB+; Stable (19-Aug-19) 3)CARE BBB+; Stable (06-Aug-19)	-
5.	Debentures-Non Convertible Debentures	LT	0.01	CARE BBB+; Negative	-	1)CARE BBB+; Negative (24-Feb-21) 2)CARE BBB+; Stable (19-Aug-20)	1)CARE BBB+; Stable (16-Sep-19)	-
6.	Debentures-Non Convertible Debentures	LT	70.00	CARE BBB+; Negative	-	1)CARE BBB+; Negative (24-Feb-21) 2)CARE BBB+; Stable (19-Aug-20)	1)CARE BBB+; Stable (20-Feb-20)	-

7.	Debentures-Non Convertible Debentures	LT	45.21	CARE BBB+; Negative	-	1)CARE BBB+; Negative (24-Feb-21) 2)CARE BBB+; Stable (19-Aug-20)	1)CARE BBB+; Stable (18-Mar-20)	-
8.	Debentures-Non Convertible Debentures	LT	-	-	-	1) Withdrawn (24-Feb-21) 2)Provisional CARE A (CE); Stable (14-Jul-20)	-	-
9.	Debentures-Non Convertible Debentures	LT	74.00	CARE BBB+; Negative	-	1)CARE BBB+; Negative (24-Feb-21) 2)CARE BBB+; Stable (19-Aug-20) 3)CARE BBB+; Stable (14-Jul-20)	-	-
10	Debentures-Non Convertible Debentures	LT	75.00	CARE BBB+; Negative	-	1)CARE BBB+; Negative (24-Feb-21)	-	-
11	Fund based-Bank Facilities	LT	50.00	CARE BBB+; Negative	-	1)CARE BBB+; Negative (24-Feb-21)	-	-
12	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Negative	-	1)CARE BBB+; Negative (18-Mar-21)	-	-
13	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB+; Negative	-	-	-	-

**Annexure-3: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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