Navi Finserv Limited (Revised)

September 11, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	1,000.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating continues to derive strength from the benefits derived from being part of the Navi group, including the technological and funding support received from Navi Technologies Ltd (NTL); the strong experience of the promoter, Mr. Sachin Bansal, in the technology-led business; the established track record of its subsidiary, Chaitanya India Fin Credit Private Limited (CIFCPL), in the microfinance institution (MFI) business with relatively stable performance; and the growth potential of NFL's highly scalable personal loan business model, wherein, the end-to-end process is fully digital. The rating takes note of the improvement in the profitability during FY23 (refers to the period April 01 to March 31). On a consolidated basis, NFL reported a PAT of Rs.264 crore in FY23 as against a net loss of Rs.15 crore in FY22. The rating also takes note of the strong net worth of the ultimate holding company, NTL, which stood at ₹3,171 crore as on March 31, 2023 (Provisional). The rating, however, remains constrained by the limited track record of the group in the personal loan (PL) and home loan (HL) business; the evolving nature of the PL business, wherein, the robustness of the credit engine is yet to be established over various economic cycles; the moderate resource profile of the PL business with a lower share of bank funding; the inherent risk associated with the exposure to unsecured loan segments, namely, MFI and PL; and the regulatory risk associated with the digital lending space, wherein, regulations in the industry are also evolving.

Board of directors of NFL, with its meeting dated August 08, 2023, has approved the sale of CIFCPL to Svatantra Microfin Private Limited (SMPL) (rated CARE AA-; Stable). The 75% of equity shares being held by NFL and 25% of equity shares being held by NTL in CIFCPL shall be transferred to SMPL in accordance with the Share Purchase Agreement, subject to receipt of approval from Reserve Bank of India. Further, the Proposed Transaction is subject to receipt of the approval of the shareholders of NFL and NTL and satisfaction of other conditions set forth in the share purchase agreement to be entered between the CIFCPL, NTL, NFL, and SMPL. CARE Ratings will continue to monitor the developments in this regard.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Significant improvement in capitalisation levels of NFL along with stable asset quality parameters
- Improvement in profitability with ROTA of above 2.5% on sustained basis

Negative factors: Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Increase in the non-performing assets (NPA) level, with Gross Stage 3 (%) of above 4% on a sustained basis.
- Debt to equity ratio of above 4 times (NFL-consolidated) on a sustained basis

Analytical approach:

CARE has taken a consolidated view of Navi Finserv Ltd (NFL) for assessing the financial position of NFL as CIFCPL is a subsidiary of NFL and equity requirements of CIFCPL is met by NFL and NTL. CARE has also factored in financial and technological support from its parent entity, Navi Technologies Limited (NTL) including usage of the brand name, technology platform which forms the base for end-to-end credit process of NFL.

Outlook: Stable

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The stable outlook reflects the likely continuation of stable credit profile with adequate capitalisation levels.

Detailed description of the key rating drivers:

Key strengths

Benefits derived from being part of the Navi group along with strong experience of the promoter in the technology-driven business

The parent, Navi Technologies Limited (NTL), holds a 100% stake in NFL as on March 31, 2023. NTL (consolidated) had a strong net worth of ₹3,171 crore as on March 31, 2023, and until FY23, NTL infused an equity capital ₹2,642 crore in NFL (consolidated). In addition, NTL also has a debt funding outstanding of around ₹300 crore as on March 31, 2023. In addition, the development and maintenance of the technology platform for NFL are also done by NTL. NTL has a tech team of around ~400 personnel, engaged in product development, maintenance, improvement, etc. While the Navi platform offers solutions for General Insurance, AMC also, NFL is a major user of NTL's offerings.

Mr. Sachin Bansal Chairman & Managing Director and Chief Executive Officer (CEO) of NTL, is also the Executive Chairman and CEO of NFL. He has strong experience in the technology-led consumer business. He was one of the co-founders of Flipkart, an online bookstore established in October 2007, which is also a highly technology-driven business. From inception until 2016, Mr. Sachin Bansal held the position of CEO and from 2016 until 2018, he held the position of Executive Chairman in Flipkart. He has sold his entire stake and exited Flipkart in 2018. Post this, Mr. Sachin Bansal co-founded Navi group with Mr. Ankit Agarwal, a former banker who has held senior positions across multi-national corporation (MNC) banks. Mr. Ankit Agarwal is the Managing Director of NFL and also Chief Financial Officer of NTL.

Growth potential led by the technology-led business model for personal loans

NFL has a highly scalable business model, enabled by a digital lending process through its mobile application 'Navi' for PLs, with the entire process – from origination, credit underwriting, and disbursement – performed digitally. No manual intervention in personal loans provides the company with the ability to grow its loan portfolio at a faster pace. The turnaround time (TAT) for the entire PL process is reportedly around ~10 minutes. CARE Ratings notes that while technology has demonstrated its capacity for easy growth, the ability of the machine learning (ML) algorithms and regression models to keep a check on the quality of the loans being sourced and disbursed is still evolving in nature. Also, while the business model is highly scalable, the sustenance of asset quality along with the expansion in the loan portfolio amid high competition from banks and other financial technology (fintech) companies is yet to be seen.

NFL has pan India presence in terms of personal loan portfolio. For housing loans, the company has presence in 10 cities for HL loans. CIFCPL, subsidiary of NFL has presence in 12 states with a branch network of 713 branches. On a consolidated basis, total number of customers stood at 26.62 million.

Improvement in Profitability during FY23

NFL (consolidated) reported a PAT of Rs.264 crore on a total income of Rs.2,079 crore during FY23 as against a loss of Rs.15 crore on a total income of 820 crore during FY22. The losses during FY22 where on account of higher advertising costs in relation to the income. NFL (consolidated) reported a NIM and ROTA of 12.45% and 2.83% respectively in FY23.

On a standalone basis, NFL has reported a PAT of Rs.172 crore during FY23 as against a loss of Rs.67 crore during FY22. During FY23, NFL had an income from sale of 25% stake of CIFCL to NTL of Rs.56 crore. The PBT-ROTA excluding the income from this sale stood at 2.26% (PBT-ROTA of 3.16% including the same). NFL (standalone) reported a NIM of 12.19% in FY23 as against 6.33% in FY22. Opex has improved from 8.86% in FY22 to 6.11% in FY23 majorly with increase in Asset under Management (AUM) and with change in accounting of marketing expense with the expense being netted off in interest income from FY23 onwards. The company reported credit cost of 5.89% in FY23. With improvement in NIM, other income and opex, ROTA improved to 2.84% in FY23. Including the Off-book portfolio, Adjusted ROTA stood at 2.47% in FY23. CARE Ratings expects the profitability to improve in the near term considering the growth in AUM and stable credit cost.

During FY23, Navi Technologies Limited (consolidated) reported a PAT of Rs.14 crore on a total income of Rs.2,436 crore as against a loss of Rs.362 crore on a total income of Rs.1,061 crore with majority of the expense being employee cost.

Adequate capitalisation

Mr. Sachin Bansal (Promoter & Co-Founder of Navi Group) has infused ₹ 3,960 crs into the group at the time of inception. Aided by regular capital infusion by the group on regular interval, NFL and CIFCPL has been able to maintain adequate capital adequacy over the past few years. During FY23, NFL received infusion from the parent company (NTL) amounting to Rs. 950 crore. NTL has till date infused Rs. 2,957 crore over the years into NFL and NFL has infused Rs. 510 crore into CIFCPL. Also, during FY23, NTL has acquired 25% of the stake of CIFCPL from NFL.

CAR and Tier 1 CAR of NFL stood at 28.37% and 27.19% as on March 31, 2023 as against 30.73% and 29.73% as on March 31, 2022. CAR and Tier 1 CAR of CIFCPL 22.34% and 16.01% as on March 31, 2023 as against 17.38% and 15.87% as on March 31, 2022. The overall gearing (Consol) as on March 31, 2023, stood at 3.96x (PY:4.07x) and overall gearing for NFL (standalone) stood at 2.66x (PY:2.45x) and for CIFCPL overall gearing stood at 4.89x as on March 31, 2023 (PY:5.22x). CARE expects the overall gearing to remain around 4x in the medium term as the company is also focussing on increased exposure through colending.

Established track record of the microfinance business with stable financial performance

CIFCPL is a subsidiary of NFL which is engaged in microfinance lending since 2009, with an operational vintage of more than 14 years up to date. It is to be noted that 25% stake in CIFCPL was sold by NFL to NTL during FY23. This subsidiary continues to remain profitable since the last four years (since FY19-acquired by NFL in October, 2019) with continuous growth in the loan portfolio. On a year-on-year (y-o-y) basis, the assets AUM of the company grew by 85% during FY23. As on June 30, 2023, the AUM stood at ₹5,184 crore. During FY23, the profit-after-tax (PAT) stood at ₹148 crore (Q1FY24: ₹69 crore) as against ₹52 crore during FY22. As on March 31, 2023, on a consolidated basis, MFI accounted for 38% of the AUM of NFL (consolidated). CARE Ratings expects the performance of CIFCPL to remain stable in the medium term.

Key weaknesses

Limited track record of operations in personal loans & home loans; Evolving nature of the personal loan business with the robustness of the credit engine yet to be established over various economic cycles:

NFL launched its personal loans in April 2020 and the personal loan AUM grew from ₹492 crore as on March 31, 2021, to ₹7,141 crore as on March 31, 2023, and further to ₹7,774 crore as on June 30, 2023. CARE Ratings expects the growth rate at AUM level is expected to remain high in the near term. The end-to-end technology-led business model enabled the company to scale up its book in such a short span. NFL has also ventured into the housing loan segment in February 2021 and currently has presence in 10 cities for the same. The track record of the company in both these segments remains limited along with evolving nature of the credit engine especially for the personal loans. The robustness of the credit engine remains to be seen through different economic cycles and regulatory changes.

Initially, the company started with a short tenure personal loan product and subsequently started moving towards longer tenure product. The proportion of AUM having tenure of more than 2 years has increased from 37% as on March 31, 2022 to 74% as on March 31, 2023. The company caters to the customers with better credit profile with 58% of the customers having CIBIL score of above 750. The ability of the company to retain such relatively better quality customers remains to be seen.

Average Asset Quality as reflected in higher credit costs

With presence majorly in personal loan segment, the company has aggressive write-off policy. With increased write-offs, credit cost stood at 5.89% in FY23 as against 3.79% in FY22. As a result, the reported NPA number remains lower. On consolidated basis, GS3 and NS3 stood at 1.19% and 0.21% as on March 31, 2023, as against 1.06% and 0.20% as on March 31, 2022. Stage-III provision coverage stood at 83% as on March 31, 2023, compared to 82% as on March 31, 2022. 0+ DPD of the NFL

(Standalone) increased from 2.59% as on March 31, 2022 to 4.58% as on March 31, 2023. As on June 30, 2023, the same stood at 5.22%.

Moderate resource profile with a lower share of bank funding for the personal loan business

On a consolidated basis, the total debt stood at ₹9,316 crore as on March 31, 2023 for NFL. For NFL on a standalone basis, major funding was by way of term loans (33%), followed by PTC (28%), MLD (13%), non-convertible debentures [NCDs; including public issue] (19%), commercial paper (7%) and sub debt (0.19%) as on March 31, 2023. Of the total borrowings as on March 31, 2023, around 22% is from banks. While at CIFCPL, 89% of the funding was through term loans with around 78% being from banks. NCDs (10%), SD (0.43%), PTC (0.92%) and CPs (0.42%) constitutes the remaining portion of the resource profile at CIFCPL. Given the high growth rates projected for the PL business, an increase in the share of bank funding is critical for NFL going forward.

Regulatory risk related to the digital lending space

The ratings also take note of the regulatory risk associated with entities operating in digital lending as the regulations are still evolving in nature. The Reserve Bank of India (RBI) has come out with a circular on digital lending on September 02, 2022. The digital lending gaining momentum & size, and the regulations in the industry also evolving exposing the industry to regulatory risk. However, the extent of impact for fintech players may vary depending on the business model followed.

Liquidity: Adequate

NFL's (consolidated) asset liability maturity (ALM) stood adequate, with no negative cumulative mismatches in any of the time buckets up to one year as on June 30, 2023 due to the relatively short nature of its loans as against longer tenure of its borrowings. As on June 30, 2023, the company had cash and bank balance of ₹1453 crore. Going forward, the ALM profile is likely to undergo a change, as the effective tenure of loans is extended. The company has a liquidity policy to maintain a minimum of two months of its fixed debt obligations as liquidity at all times.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Non Banking Financial Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

Navi Group is promoted by Mr. Sachin Bansal, the former Chairman and co-founder of Flipkart which was acquired by Walmart in 2018. Post his exit from Flipkart, Mr. Sachin Bansal along with Mr. Ankit Agarwal started the Navi group in 2019 with the ambition of making financial services simple, affordable and accessible. Navi Technologies Limited (NTL) is the holding company of the group. Originally incorporated on December 10, 2018 as a private limited company in the name of 'BAC Acquisitions Private Limited', name of the Company was changed to 'Navi Technologies Private Limited' on September 27, 2019. The Company was converted from a private limited company to a public limited company and the name of our Company was changed to 'Navi Technologies Limited'. A fresh certificate of incorporation dated February 15, 2022 consequent upon change of name was issued.

In October 2019, Navi Technologies Limited acquired Chaitanya Rural Intermediation Development Services Private Limited (CRIDS), now known as Navi Finserv Limited (NFL) along with its subsidiary Chaitanya India Fin Credit Private Limited (CIFCPL), an NBFC-MFI engaged microfinance business.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)
Total income	820	2,079
PAT	-15	264
Interest coverage (times)	0.92	1.48
Total Assets	6,254	12,439
Net NPA (%)	0.20	0.21
ROTA (%)	NM	2.83

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: *NA*

Any other information: *NA*

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	INE342T14599	28-Apr-23	9.15%	25-Oct-23	10.00	CARE A1
	INE342T14607	11-May-23	10.00%	31-Oct-23	30.00	CARE A1
	INE342T14615	15-May-23	9.00%	28-Sep-23	30.00	CARE A1
	INE342T14631	08-Jun-23	9.00%	18-Sep-23	20.00	CARE A1
	INE342T14649	15-Jun-23	9.25%	13-Sep-23	25.20	CARE A1
	INE342T14656	22-Jun-23	9.00%	20-Sep-23	25.00	CARE A1
	INE342T14664	27-Jun-23	9.25%	26-Dec-23	20.00	CARE A1
	INE342T14672	27-Jun-23	9.25%	26-Sep-23	22.00	CARE A1
	INE342T14680	30-Jun-23	9.25%	04-Oct-23	25.00	CARE A1
	INE342T14698	03-Jul-23	9.25%	05-Oct-23	15.00	CARE A1
	INE342T14706	12-Jul-23	9.25%	19-Oct-23	10.00	CARE A1
	INE342T14714	27-Jul-23	9.00%	26-Oct-23	26.00	CARE A1
	INE342T14722	02-Aug-23	9.00%	02-Nov-23	15.00	CARE A1
	INE342T14730	14-Aug-23	9.00%	14-Dec-23	16.00	CARE A1
	INE342T14748	22-Aug-23	9.00%	27-Dec-23	12.00	CARE A1
	INE342T14755	31-Aug-23	9.00%	28-Mar-24	50.00	CARE A1
	INE342T14763	05-Sep-23	9.00%	05-Dec-23	7.00	CARE A1
	Proposed	-	-	-	641.80	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.		Current Ratings	Rating History

	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial Paper-Commercial Paper (Standalone)	ST	1000.00	CARE A1	-	1)CARE A1 (16-Sep-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: *Not Applicable*

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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