Navi Finserv Limited

September 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	1000.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the short term debt instrument of Navi Finserv Limited (NFL) 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; 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 adequate capitalization levels of the company supported by strong tangible net worth of the ultimate holding company, NTL, which stood at ₹3,560 crore as on March 31, 2024 and improvement in the resource profile with increase in share of bank funding. The capitalisation was also supported by the sale of Chaitanya India Fin Credit Private Limited (CIFCPL) during FY24. The rating, however, remains constrained by the limited track record of the group in the personal loan (PL) and home loan (HL) business and the evolving nature of the PL business, the moderate yet improving profitability and the inherent risk associated with the exposure being predominantly to unsecured loan segment and the regulatory risk associated with the digital lending space, wherein, regulations in the industry are also evolving.

Rating sensitivities: Factors likely to lead to rating actions

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

- Improvement in scale of operations while maintaining good asset quality
- Significant improvement in capitalisation levels of NFL.
- Improvement in profitability with ROMA (Profit after-tax (PAT)/ Average total assets [including off book] 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 3.5 times (NFL) on a sustained basis

Analytical approach:

CARE had taken a standalone assessment of Navi Finserv Limited (NFL) and 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.

Detailed description of 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, 2024. NTL (consolidated) had a strong net worth of ₹3,560 crore as on March 31, 2024, and until FY24, NTL infused an equity capital ₹2,957 crore in NFL. In addition, NTL also extended a debt funding to NFL of which ₹300 crore was outstanding as on June 30, 2024. Further, NFL has also mobilised fresh funds through sale of the subsidiary CIFCPL leading to post-tax gain of Rs.552 crore in NFL.
In addition, the development and maintenance of the technology platform for NFL are also done by NTL. NTL has a tech team engaged in product development, maintenance, improvement, etc. While the Navi platform offers solutions for General Insurance, AMC also and has recently launched UPI business under NTL, 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, 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

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

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 Group Chief Financial Officer.

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 less than ~10 minutes with continuous efforts made in reduction of overall TAT and enhancing customer experience. 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 and the company has been able to deploy the retrained models on a frequent basis and the same remains critical for the sustenance of asset quality along with the expansion in the loan portfolio amid high competition from banks and other financial technology (fintech) companies.

NFL has pan India presence in terms of personal loan portfolio. For housing loans, the company has presence only in few cities (Bangalore, Hyderabad, Chennai, Pune, Mumbai). The company has satellite offices for HL loans covering these areas.

Total number of active customers stood at 13.5 lakh at NFL as on June 30, 2024. Company's overall AUM has witnessed CAGR growth of 163% during FY21-FY24.

Improving resource profile with increasing share of bank funding

The total debt stood at ₹7,304 crore as on June 30, 2024 at NFL (including Rs.300 crore of debt given by NTL). The resource profile has witnessed improvement over the years. On the total borrowings, share of term loan from banks has witnessed increased from 21.5% as on March 31, 2023 to 31.4% as on June 30, 2024, followed by PTC (25.6%) (of which banks formed 14% of it as well). Company has completed two public issue of NCDs during FY24 raising Rs.1,007 crore. Share of non-convertible debentures [NCDs; including public issue] stood at 20.5%, Term loan from NBFCs (10.7%), NCD from holding company (4.2%), CP (6.2%), MLD (1.3%), and sub debt (0.1%) constitutes the remaining portion of the resource profile as on June 30, 2024. Company has established lender base network of 58 lenders across various lending categories as on June 30, 2024. Given the healthy growth rates projected for the PL business, continuation of momentum in increase in the share of bank funding is critical for NFL going forward.

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 has been able to maintain adequate capital adequacy levels over the years. Till Q1FY25, NFL received infusions from the parent company (NTL) amounting to Rs. 2,957 crore over the years into NFL of which NFL had infused Rs. 510 crore into CIFCPL. During FY24, NFL has divested its stake at CIFCPL thereby recognizing post tax gain on sale of stake of Rs.552 crore corresponding to 75% of the stake of CIFCPL leading to increase in the networth base to Rs.2,930 crore as on June 30, 2024.

Despite the healthy loan book growth and increase in risk weighted assets, CAR of NFL continued to remain healthy and stood stable at 28.42% as on March 31, 2024 as against 28.37% as on March 31, 2023. CAR stood at 26.85% as on June 30, 2024. The overall gearing stood at 2.30 times as on March 31, 2024 (PY:2.66 times) and at 2.45 times as on June 30, 2024. CARE expects the overall gearing to remain less than 3.5 times in the medium term as the company is also focussing on increased exposure through co-lending and DA partnerships. CARE Ratings expects the current capitalisation would be adequate to support the growth over the medium term.

Key weaknesses

Limited track record of operations in personal loans & home loans and evolving nature of the personal loan business

NFL launched its personal loans in April 2020 and the personal loan AUM grew from ₹492 crore as on March 31, 2021, to ₹10,190 crore as on March 31, 2024 representing CAGR growth of 175% during FY21-FY24 in the segment. AUM of personal loans further increased to ₹10,419 crore as on June 30, 2024. Personal loans constitute 89% of the overall AUM as on June 30, 2024. In the near term, the growth rate is expected to remain healthy however would be at a lower rate compared to the earlier years. 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 its physical presence in 5 locations which acts as facilitation centre for the borrowers. AUM of housing loan stood at Rs.1,293 crore constituting 11% of overall AUM outstanding as on June 30, 2024. The track record of the company in both these segments remains limited.

Average asset quality as reflected in higher credit costs
With presence majorly in personal loan segment, the company has aggressive write-off policy. With improvement in collection efficiency, the credit cost during FY24 stood lower at 4.32% during FY24 as against 5.30% during FY23. This is despite higher provision coverage maintained by the company. Stage-III provision coverage stood at 87.6% as on March 31, 2024, compared to 82.6% as on March 31, 2023. As a result, despite the marginal increase in the GNPA from 1.70% as on March 31, 2023 to 1.87% as on March 31, 2024, the NNPA stood lower at 0.23% as on March 31, 2024 (March 31, 2023: 0.32%). As on June 30, 2024, GNPA and NNPA stood at 1.92% and 0.15% respectively. 0+ DPD of the NFL increased from 4.59% as on March 31, 2023 to 4.90% as on March 31, 2024. As on June 30, 2024, the same stood at 5.33%.

Moderate yet improving profitability especially during Q1FY25
NFL reported a PAT of Rs.669 crore on a total income of Rs.2,614 crore during FY24 as against a profit of Rs.172 crore on a total income of 1,377 crore during FY23. The improvement in profits during FY24 was primarily due to gain on sale of stake of CIFCPL. CIFCPL was sold by NFL and NTL to Svatantra Microfin Private Limited thereby recognizing post-tax gain of Rs.552 crore during FY24 at NFL. Further, credit cost also stood lower at 4.32% during FY24 as against 5.30% during FY23, leading to reported ROMA of 5.83% during FY24 as against 2.47% in FY23. However, excluding one-off income, ROMA (profit after-tax (PAT)/average total assets [including off book]) stood lower at 1.14% during FY24 as against 1.39% during FY23 on account of lower NIMs which stood at 8.31% during FY24 as against 10.83% in FY23. During Q1FY25, profitability of NFL has witnessed improvement with reported PAT of Rs.59 crore on a total income of Rs.549 crore with ROMA of 1.73%.
During FY24, Navi Technologies Limited (Consolidated) reported a PAT of Rs.359 crore on a total income of Rs.2,812 crore as against a profit of Rs.21 crore on a total income of Rs.2,448 crore.

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 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, 2024 due to the relatively short nature of its loans as against longer tenure of its borrowings. As on June 30, 2024, the company had cash and bank balance along with liquid investments of ₹2,074 crore. Going forward, the ALM profile is likely to undergo a change, as the effective tenure of loans is extended. LCR stood adequate at 153% as against the regulatory requirement of 85% as on June 30, 2024. 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
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Policy on Default Recognition
Financial Ratios – Financial Sector
Non-Banking Finance Companies
Short-Term Instruments

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. As on March 31, 2024, Sachin Bansal holds 98.36% stake in NTL.

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 which was sold to Svatantra Microfin Private Limited during November 2023.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (A)
Total operating income	1,377	2,614	549
PAT	172	669	59
Total tangible assets	8,449	10,057	10,875
Net NPA (%)	0.32	0.23	0.15
ROMA (%)	2.47	5.83	1.73
ROMA (%) (excluding gain on CIFCPL)	1.39	1.14	1.73

A: Audited; UA: Unaudited; Note: these are latest available financial results; ROMA=Profit after-tax (PAT)/average total assets [including off book]

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument/facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	INE342T14AH6	19-Mar-24	9.35%	30-Dec-24	10.00	CARE A1
	INE342T14AO2	18-Apr-24	10.10%	27-Sep-24	10.00	CARE A1
	INE342T14AQ7	03-May-24	9.50%	04-Nov-24	10.00	CARE A1
	INE342T14AS3	07-May-24	9.37%	23-Sep-24	40.70	CARE A1
	INE342T14AT1	08-May-24	9.15%	05-Nov-24	16.00	CARE A1
	INE342T14AU9	14-May-24	9.15%	12-Nov-24	5.25	CARE A1
	INE342T14AV7	16-May-24	10.10%	12-Dec-24	10.00	CARE A1
	INE342T14AX3	28-May-24	9.35%	30-Aug-24	10.00	CARE A1
	INE342T14AZ8	03-Jun-24	9.40%	02-Sep-24	10.00	CARE A1
	INE342T14BA9	07-Jun-24	9.25%	09-Sep-24	5.00	CARE A1
	INE342T14BB7	19-Jun-24	9.40%	18-Sep-24	24.50	CARE A1
	INE342T14BC5	24-Jun-24	9.40%	26-Sep-24	25.00	CARE A1
	INE342T14BE1	26-Jun-24	9.20%	24-Sep-24	10.50	CARE A1
	INE342T14BD3	26-Jun-24	9.40%	25-Sep-24	10.00	CARE A1
	INE342T14BF8	05-Jul-24	9.40%	07-Oct-24	27.00	CARE A1
	INE342T14BG6	12-Jul-24	9.70%	14-Oct-24	35.00	CARE A1
	INE342T14BI2	16-Jul-24	9.40%	15-Oct-24	10.00	CARE A1
	INE342T14BH4	18-Jul-24	9.40%	22-Oct-24	40.00	CARE A1
	INE342T14BJ0	23-Jul-24	9.40%	23-Oct-24	10.00	CARE A1
	INE342T14BK8	24-Jul-24	9.42%	06-Nov-24	65.00	CARE A1
	INE342T14BL6	25-Jul-24	9.20%	27-Dec-24	5.00	CARE A1
	INE342T14BN2	30-Jul-24	9.40%	29-Oct-24	10.00	CARE A1
	INE342T14BM4	31-Jul-24	10.25%	28-Mar-25	75.00	CARE A1
	INE342T14BO0	02-Aug-24	9.40%	31-Oct-24	12.00	CARE A1
	INE342T14BP7	05-Aug-24	9.40%	13-Nov-24	25.00	CARE A1
	INE342T14BQ5	05-Aug-24	10.25%	31-Mar-25	25.00	CARE A1
	INE342T14BR3	26-Aug-24	9.45%	23-Mar-24	35.00	CARE A1
	Proposed	-	-	-	429.05	CARE A1

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
1	Commercial Paper-Commercial Paper (Standalone)	ST	1000.00	CARE A1	-	1)CARE A1 (11-Sep-23)	1)CARE A1 (16-Sep-22)	-

ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details: Not applicable

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 914428501001 E-mail: pradeep.kumar@careedge.in	Vineet Jain Senior Director **CARE Ratings Limited** Phone: 912267543623 E-mail: vineet.jain@careedge.in Ravi Shankar R Associate Director **CARE Ratings Limited** Phone: 914428501016 E-mail: ravi.s@careedge.in Tony Mathew Assistant Director **CARE Ratings Limited** E-mail: tony.mathew@careedge.in

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.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in