

Navi Finserv Limited

October 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Commercial Paper	1000.00	CARE A1 (RWD)	Placed on Rating Watch with developing implications

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) is placed under rating watch with developing implications due to an order from the Reserve Bank of India (RBI). This order, issued on October 17, 2024, directed NFL to cease and desist from sanction and disbursement of loans, effective from close of business of October 21, 2024. The RBI order does not impose restrictions to collect and recover from existing loans. These restrictions will be reassessed by the RBI after NFL submits their remedial action plan.

In response, NFL is in the process of taking necessary remedial measures to address the concerns raised by the RBI and has identified the necessary changes to be made and the same would be placed before the board for approval. The Board approved plan would subsequently be submitted to the RBI.

The company maintained adequate liquidity position with cash and bank balance and liquid investments of ₹1,896 crore as on September 30, 2024 (Provisional). Further, there are no negative cumulative mismatches in the time buckets up to one year per ALM as on September 30, 2024. The company has a debt repayment obligation (including interest) of ₹3,028 crore for next six months (October 2024-March 2025) against which the company has scheduled recoveries/inflow of ₹4,004 crore. The management indicated lenders have been supportive and none of their financial covenants are under breach.

CARE Ratings is closely monitoring ongoing developments related to the company, particularly the pace of resolving business restrictions and potential impact of prolonged delays on its operations and credit profile.

The rating assigned continues to derive strength from benefits derived from being part of the Navi group, including technological and funding support received from NTL; strong experience of the promoter, Sachin Bansal, in technology-led business; and growth potential of NFL's highly scalable personal loan business model, where the end-to-end process is fully digital. The rating takes note of the company's adequate capitalisation levels 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. However, the rating remains constrained by limited track record of the group in personal loan (PL) and home loan (HL) business and evolving PL business, moderate yet improving profitability and inherent risk associated with the exposure being predominantly to unsecured loan segment and regulatory risk associated with digital lending space, where regulations in the industry are also evolving. CARE Ratings will continue to assess these factors as they develop.

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 return on market value of equity (ROMA) (profit after tax [PAT]/ average total assets [including off book]) of above 2.5% on a sustained basis.

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

- Increase in non-performing assets (NPA) level, with gross Stage 3 (%) of above 4% on a sustained basis.
- Debt to equity ratio of above 3.5x (NFL) on a sustained basis.
- Negative impact of the RBI action on its scale and liquidity or prolonged delay in resolution of the directive.

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

Analytical approach:

CARE Ratings has taken NFL's standalone assessment and also factored in financial and technological support from its parent entity, NTL including use of the brand name, technology platform which forms the base for NFL's end-to-end credit process.

Detailed description of key rating drivers:

Key strengths

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

The parent, NTL, holds 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 equity capital of ₹2,957 crore in NFL. In addition, NTL also extended 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 CIFICPL leading to post-tax gain of ₹552 crore in NFL.

In addition, development and maintenance of the technology platform for NFL is also done by NTL. NTL has a tech team engaged in product development, maintenance, and improvement among others. While the Navi platform offers solutions for general insurance, AMC also recently launched UPI business under NTL, NFL is a major user of NTL's offerings. Sachin Bansal, Chairman and 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, Sachin Bansal held the position of CEO and from 2016 until 2018. He held the position of Executive Chairman in Flipkart. He sold his entire stake and exited Flipkart in 2018. Post this, Sachin Bansal co-founded Navi group with Ankit Agarwal, a former banker who held senior positions across multi-national corporation (MNC) banks. Ankit Agarwal is the NFL's Managing Director and 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. 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 while technology demonstrated its capacity for easy growth, ability of machine learning (ML) algorithms and regression models to keep a check on quality of loans being sourced and disbursed is still evolving and the company has been able to deploy retrained models frequently and this remains critical for sustenance of asset quality and expansion in loan portfolio amid high competition from banks and other financial technology (fintech) companies.

NFL has pan India presence in personal loan portfolio. For housing loans, the company has presence only in few cities (Bangalore, Hyderabad, Chennai, Pune, and 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. The company's overall assets under management (AUM) witnessed compound annual growth rate (CAGR) growth of 163% in FY21-FY24. The directive from RBI will also result in quick rundown in AUM as the asset book is shorter to medium tenor and considering the behavioural prepayments in the segment. Further, the company's growth depends on resolution of regulatory order by the RBI and shall remain a key monitorable going forward.

Improving resource profile with increasing share of bank funding

Total debt stood at ₹7,304 crore as on June 30, 2024, at NFL (including ₹300 crore of debt given by NTL). Resource profile improved over the years. On the total borrowings, share of term loan from banks 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). The company completed two public issues of NCDs in FY24 raising ₹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 resource profile's remaining portion as on June 30, 2024. The company established lender base network of 58 lenders across lending categories as on June 30, 2024.

Adequate capitalisation

Sachin Bansal (Promoter and Co-Founder of Navi Group) infused ₹ 3,960 crore in the group since 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 ₹2,957 crore over the years in NFL of which NFL infused ₹510 crore in CIFICPL. In FY24, NFL divested its stake at CIFICPL recognising post tax gain on sale of stake of ₹552 crore corresponding to 75% of CIFICPL's stake leading to increase in net worth base to ₹2,930 crore as on June 30, 2024.

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

Key weaknesses

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

NFL launched its personal loans in April 2020 and 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% in 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. End-to-end technology-led business model enabled the company to scale up its book in such a short span. NFL has also ventured in the housing loan segment in February 2021 and its physical presence in five locations acts as facilitation centre for the borrowers. AUM of housing loan stood at ₹1,293 crore constituting 11% of overall AUM outstanding as on June 30, 2024. The company's track record in these segments remains limited.

Average asset quality as reflected in higher credit costs

With presence majorly in the personal loan segment, the company has an aggressive write-off policy. With improvement in collection efficiency, credit cost in FY24 stood lower at 4.32% in FY24 against 5.30% in 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 marginal increase in gross non-performing assets (GNPA) from 1.70% as on March 31, 2023, to 1.87% as on March 31, 2024, net non-performing assets (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, this stood at 5.33%.

Moderate yet improving profitability especially in Q1FY25

NFL reported a PAT of ₹669 crore on total income of ₹2,614 crore in FY24 against profit of ₹172 crore on total income of 1,377 crore in FY23. Improvement in profits in FY24 was primarily due to gain on sale of CIFCPL's stake. CIFCPL was sold by NFL and NTL to Svatantira Microfin Private Limited, recognising post-tax gain of ₹552 crore in FY24 at NFL. Further, credit cost also stood lower at 4.32% in FY24 against 5.30% in FY23, leading to reported ROMA of 5.83% in FY24 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% in FY24 against 1.39% in FY23, considering lower NIMs which stood at 8.31% in FY24 against 10.83% in FY23. In Q1FY25, NFL's profitability improved with reported PAT of ₹59 crore on total income of ₹549 crore with ROMA of 1.73%.

In FY24, NTL (Consolidated) reported PAT of ₹359 crore on total income of ₹2,812 crore against profit of ₹21 crore on total income of ₹2,448 crore.

RBI directions to cease and desist from sanction and disbursal of loans and regulatory risk related to the digital lending space

The rating takes note of the regulatory risk associated with entities operating in digital lending as the regulations are still evolving. The Reserve Bank of India (RBI) has come out with a circular on digital lending on September 02, 2022. Digital lending is gaining momentum and size, and regulations in the industry also evolved exposing the industry to regulatory risk. The RBI vide its press release dated October 17, 2024, directed NFL to cease and desist from sanction and disbursal of loans, effective from close of business of October 21, 2024. CARE Ratings will continue to monitor developments in this regard including the impact of regulatory changes on NFL's business operations, and credit profile.

Liquidity: Adequate

NFL's asset liability maturity (ALM) stood adequate, with no negative cumulative mismatches in the time buckets up to one year as on September 30, 2024, due to relatively short loans against longer tenure of its borrowings. As on September 30, 2024, the company had cash and bank balance and liquid investments of ₹1,896 crore (Provisional).

The company has debt repayment obligations (including interest) of ₹3,028 crore for next six months (October 24-March 25) against which the company has advances inflow of ₹4,004 crore. 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](#)

[Notching by Factoring Linkages in Ratings](#)

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 Sachin Bansal, the former Chairman and co-founder of Flipkart which was acquired by Walmart in 2018. Post his exit from Flipkart, Sachin Bansal and Ankit Agarwal started the Navi group in 2019 with the ambition of making financial services simple, affordable and accessible. NTL is the group's holding company. Originally incorporated on December 10, 2018, as a private limited company in the name '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 the 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, NTL acquired Chaitanya Rural Intermediation Development Services Private Limited (CRIDS), now known as Navi Finserv Limited (NFL) and its subsidiary Chaitanya India Fin Credit Private Limited (CIFCPL), an NBFC-MFI engaged microfinance business which was sold to Svatantra Microfin Private Limited in 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 and Rating Outlook
Commercial Paper- Commercial Paper (Standalone)	INE342T14AH6	19-Mar-24	9.35%	30-Dec-24	10.00	CARE A1 (RWD)
	INE342T14AQ7	03-May-24	9.50%	04-Nov-24	10.00	CARE A1 (RWD)
	INE342T14AT1	08-May-24	9.15%	05-Nov-24	16.00	CARE A1 (RWD)
	INE342T14AU9	14-May-24	9.15%	12-Nov-24	5.25	CARE A1 (RWD)
	INE342T14AV7	16-May-24	10.10%	12-Dec-24	10.00	CARE A1 (RWD)
	INE342T14BH4	18-Jul-24	9.40%	22-Oct-24	40.00	CARE A1 (RWD)
	INE342T14BJ0	23-Jul-24	9.40%	23-Oct-24	10.00	CARE A1 (RWD)
	INE342T14BK8	24-Jul-24	9.42%	06-Nov-24	65.00	CARE A1 (RWD)
	INE342T14BL6	25-Jul-24	9.20%	27-Dec-24	5.00	CARE A1 (RWD)
	INE342T14BN2	30-Jul-24	9.40%	29-Oct-24	10.00	CARE A1 (RWD)
	INE342T14BM4	31-Jul-24	10.25%	28-Mar-25	75.00	CARE A1 (RWD)
	INE342T14BO0	02-Aug-24	9.40%	31-Oct-24	12.00	CARE A1 (RWD)
	INE342T14BP7	05-Aug-24	9.40%	13-Nov-24	25.00	CARE A1 (RWD)
	INE342T14BQ5	05-Aug-24	10.25%	31-Mar-25	25.00	CARE A1 (RWD)
	INE342T14BR3	26-Aug-24	9.45%	23-Dec-24	35.00	CARE A1 (RWD)
	INE342T14BS1	30-Aug-24	9.40%	29-Jan-25	5.00	CARE A1 (RWD)
	INE342T14BT9	02-Sep-24	9.75%	30-Jan-25	12.00	CARE A1 (RWD)
	INE342T14BU7	13-Sep-24	10.00%	12-Mar-25	25.00	CARE A1 (RWD)
	INE342T14BV5	19-Sep-24	9.42%	14-Feb-25	10.00	CARE A1 (RWD)
	INE342T14BW3	20-Sep-24	9.25%	24-Dec-24	17.40	CARE A1 (RWD)
	INE342T14BX1	25-Sep-24	9.40%	02-Jan-25	10.00	CARE A1 (RWD)
	INE342T14BZ6	04-Oct-24	9.00%	03-Apr-25	19.45	CARE A1 (RWD)
	INE342T14BY9	04-Oct-24	9.25%	06-Jan-25	5.70	CARE A1 (RWD)
	INE342T14CA7	04-Oct-24	9.40%	26-Dec-24	25.00	CARE A1 (RWD)
	INE342T14CB5	07-Oct-24	9.40%	31-Dec-24	20.00	CARE A1 (RWD)
	INE342T14CC3	11-Oct-24	9.50%	11-Mar-25	27.00	CARE A1 (RWD)
	INE342T14CD1	11-Oct-24	9.40%	09-Jan-25	8.00	CARE A1 (RWD)
	INE342T14CE9	15-Oct-24	9.40%	14-Jan-25	20.00	CARE A1 (RWD)
	Proposed	-	-	-	442.20	CARE A1 (RWD)

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 (RWD)	1)CARE A1 (10-Sep-24)	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.

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About us:

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