

India Ratings Affirms Navi Finserv’s NCDs at ‘IND A’/Stable & CP at ‘IND A1’; Rates Additional NCDs

Aug 16, 2024 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has taken the following rating actions on Navi Finserv Limited’s (NFL) debt instruments:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Commercial paper	-	-	7 to 365 days	INR10,000	IND A1	Affirmed
Non-convertible debentures (NCDs)*\$	-	-	-	INR6,485 (reduced from INR20,000)	IND A/Stable	Affirmed
Non-convertible debentures*				INR1,950	WD	Withdrawn (paid in full)
Non-convertible debentures*	-	-	-	INR31	WD	Withdrawn (paid in full)
Non-convertible debentures *	-	-	-	INR6,000	IND A/Stable	Affirmed
Principal protected market-linked` debentures (PP-MLDs)*	-	-	-	INR3,000	WD	Withdrawn (paid in full)
Non-convertible debentures*				INR7,500	IND A/Stable	Assigned

*Details in Annexure
 \$ The total NCDs limit of INR20,000 million stands fungible between NCDs and PP-MLDs; INR5,000 million stands for public NCDs

Analytical Approach

Ind-Ra continues to take a full consolidated view of Navi Group which includes NFL (100% owned by Navi Technologies Limited; NTL, formerly Navi Technologies Private Limited), Navi General Insurance and Navi Asset Management company, collectively referred to as the Navi group hereafter, to arrive at the ratings, given the operational and strategic linkages among the companies in addition to the common promoter and shared name. NTL is the technological backbone and provides capital support to the subsidiaries.

Detailed Rationale of the Rating Action

The affirmation reflects adequate availability of capital at Navi group which is majorly earmarked for the lending business, established underwriting and risk management systems with a reasonable technology-based model driving business functions, and NFL’s demonstrated fund-raising ability and its diversified borrowings profile. The ratings, however, remain constrained by the evolving profitability profile at the Navi group, risks associated with the target borrower profile and the

unsecured nature of loans, moderate seasoning and regulatory risks associated with digital lending.

List of Key Rating Drivers

Strengths

- Adequate capitalisation at group level
- Established underwriting systems support tech-based lending
- Franchise continues to expand with an evolving product proposition
- Diversified funding profile

Weaknesses

- Improving consolidated profitability trajectory; although sustenance of the same with scaling up of business will be key for maintaining credit profile
- Vulnerability of asset quality in lending business, given unsecured nature of loans

Detailed Description of Key Rating Drivers

Adequate Capitalisation at Group Level: NTL was set up to invest and provide technology platform to the Navi group companies. NFL is the lending subsidiary of NTL. The company was set up by the founder and ex-promoter of Flipkart, Sachin Bansal, who infused INR40 billion into various entities of the group in FY20. Apart from the lending business, other group companies include the general insurance company (Navi General Insurance), Navi Asset Management Company, broking and investment advisory units.

As of June 2024, NTL infused a total equity of INR27.18 billion into the group companies, of which INR20.56 billion was in NFL, INR4.87 billion in the insurance vertical and INR1.65 billion in the asset management company. Ind-Ra believes the group entities, other than NFL, are not expected to require material equity and liquidity access from the group resources. The group sold its microfinance business, housed under Chaitanya India Fin Credit Private Limited (debt rated at 'IND AA-/Stable) to Svatantra Microfin Private Limited for a total consideration INR15.56 billion in November 2023, which has further enhanced the group's capital base. NTL's consolidated tangible net worth improved to INR35.6 billion in FY24 (FY23: INR31.70 billion) and gearing to 1.8x (3.0x). NFL's leverage including tangible equity stood at 2.2x in FY24 (FY23: 2.6x). Ind-Ra expects the group's existing capital base, along with the improving internal accruals to be sufficient to support its near-to-medium term growth plans. Ind-Ra expects the group to maintain prudent capitalisation over the long term with a maximum gearing of 3.0x.

Established Underwriting Systems Support Tech-based Lending: The digital lending business is completely technology driven with in-house developed machine learning (ML) models used for origination, underwriting and risk management. The ML models are constantly evolving and periodically retrained based on the past performance of the loans as well as new variables added, which aids better risk identification and borrower selection. While asset under management (AUM) growth has supported the asset quality to a certain extent, the improvement is largely driven by the tightened underwriting systems, stringent loan approval rates and strengthened collections infrastructure. The asset quality has improved over the last few quarters as indicated by the improvement in portfolio at risk above 90 days on a static pool basis in the disbursement cohorts across loan tenor buckets. Although delinquencies from newer originations have been low, the group's ability to sustain the improvement in asset quality while increasing the scale of operations and seasoning will remain a key rating monitorable.

Franchise Continues to Expand with Evolving Product Proposition: NFL's AUM increased 44.6% yoy to INR113.66 billion in FY24 and 35.7% yoy to INR117.24 billion in 1QFY25. The personal loan portfolio increased 33.2% yoy to INR104.39 billion during 1FY25, while the home loan portfolio grew 3.0x to INR12.85 billion between 1QFY23 and 1QFY25. The company adopted a co-lending strategy in home loans; NFL has five co-lending partners as of 1QFY25 and will add new partners in the near term. The company is increasing the share of the off-book portfolio (1QFY25: 26.4%, FY24: 27.9%, FY23: 16.1%), which Ind-Ra expects to increase further by FY26. While the initial growth was fuelled by an increase in marketing and advertising efforts over FY22-FY23, the cost of acquisition reduced significantly during the period, on account of the scale achieved. The group has also forayed into unified payments interface (UPI) business, which has gained traction during 1QFY25 and has thereby increased traction of new customers to the platform for cross-selling of existing loan products. About 50% of the personal loans disbursed by NFL are pre-approved., ensuring that

customers with good credit profile are offered such loans. The sourcing algorithms, credit, monitoring and collection models, and other models that help operations across the loan life cycle are constantly evolving and have become mature and sharper.

Diversified Funding Profile: NFL has been diversifying its liability profile in terms of funding instrument as well as lender type. The share of term loans from banks improved to 29.4% in FY24 (FY23: 20.4%, FY22: 15.4%), however, the share of funds raised through issuance of NCDs reduced to 28.7% (42.1%, 68.1%), as the company reduced its dependence on debt from the parent company. As of March 2024, NFL's on-book funding profile comprised of bank borrowings (29.4%), borrowings from NBFCs/financial institutions (11.9%), NCDs (28.7%), securitisation (26%), commercial paper (CP; 3.8%) and subordinated debt (0.2%). The company raised incremental debt of INR66.98 billion in FY24 at a weighted average borrowing rate of 10%.

NFL had a diverse lender base comprising funding relationships with 24 commercial banks and 21 non-bank financial companies and financial institutions apart from other corporate houses and high net-worth individuals who have invested in capital market issuances of the company as of March 2024.

Improving Consolidated Profitability Trajectory; Although Sustenance of Same with Scaling up of Business Key for Maintaining Credit Profile: On a standalone basis, NFL reported a profit before tax (PBT; excluding one-time gains) of INR1.58 billion in FY24 (FY23: INR1.07 billion, FY22: loss of INR0.89 billion). The profitability in FY24 was largely impacted by high credit costs. However, with the moderation of credit costs due to the improvement in asset quality, the company reported a PBT of INR0.79 billion in 1QFY25 on a standalone basis. The Navi group, on a consolidated basis, reported a loss (excluding one-time gains) of INR2.16 billion in FY24 (FY23: PBT of INR0.02 billion); although it reported PBT of about INR0.4 billion in 1QFY25. Also, the general insurance business housed under Navi General Insurance, reported a profit of INR0.51 billion in FY24 (FY23: INR0.22 billion).

Ind-Ra expects the profitability to improve at the group level owing to stabilisation of operating expenses, resulting from the improvement in the scale of business as well as the reduction in credit costs at the lending business. The ability to keep the credit costs under control on a sustained basis would remain crucial from a rating perspective. The group also plans to foray into diversified high-yielding products in the retail lending business including credit line on UPI, which will also be an addition to its existing revenue streams.

Portfolio Vulnerability Given Unsecured Nature of Loans: As of June 2024, about 89% of NFL's AUM comprised of unsecured personal loans, which remains vulnerable to slippages on account of external headwinds. NFL's 90+ days past due (dpd) peaked to 13.6% in July 2021 due to COVID-19 and again in 2QFY23 and 3QFY23, due to the temporary revision in certain underwriting parameters, impacting the asset quality. The asset quality for the originations in the last few quarters have been performing well; NFL has substantially increased its focus on collections over the last year and is taking various measures such as enhancing its in-house collection team over the near- to medium term. However, on a dynamic basis, the 90+dpd has been on an increasing trend and stood at 2.1% in 1QFY25 (FY24: 1.8%, FY23: 1.3%). Further, the gross stage 3 assets including write-offs, as a percentage of the loan book stood at 6.6% in FY24 (FY23: 3.3%). Thus, the ability to maintain a healthy asset quality as the portfolio scales up will remain a key monitorable.

The segment is also vulnerable to the evolving regulatory landscape for digital lenders. Given high growth seen in the unsecured segment, the [Reserve Bank of India's move on increasing risk weights on consumer loans](#) has led to the tightening of the credit underwriting by NBFCs, thereby impacting growth, capital buffers and margins for fintech lenders. Any material adverse impact of regulatory changes on the company's credit risk profile will be a key monitorable.

Liquidity

Adequate: NFL's asset-liability maturity profile was comfortable as on 31 March 2024, with a positive mismatch in all buckets. Further, as per Ind-Ra's stress test on the ALM, there are no cumulative mismatches in the less-than-one-year time buckets. As on 1 July 2024, the opening cash and liquid investments stood at INR13.69 billion and the total outflows including debt repayments and operational expenses stood at INR 24.19 billion between July 2024-September 2024. The cash position on 1 July 2024, along with the monthly collections is sufficient to cover the debt obligations and operational expenses for the next three months. As per NFL's liquidity policy, the company maintains cash balances worth 30 days of repayment obligations (including debt repayments, disbursements and operating expenses) and another INR 5 billion as

an incremental liquidity buffer.

Rating Sensitivities

Positive: A continued increase in the scale of the group's financial services business with material group level and standalone profitability; the widening of its product portfolio and sufficient seasoning while maintaining strong capital buffers on a sustained basis given the unsecured nature of the portfolio, could lead to a positive rating action.

Negative: The inability to scale up as planned, consistently weak operating parameters, the lending business leverage exceeding 3.75x, consistent losses in the lending business or the gross stage 3 including write-offs exceeding 7% of the loan book, on a sustained basis, could lead to a negative rating action.

ESG Issues

Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on NFL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

About the Company

NFL, a wholly owned subsidiary of the Navi group (main holding company is NTL), holds 100% stake in NFL. The AUM of the lending business stood at INR113.80 billion at end-March 2024 and INR 117.24 billion at end June 2024. Sachin Bansal holds about 98% stake in NTL, which in turn holds 100% stake in NFL.

Key Financial Indicators

Particulars (Consolidated; INR billion)	FY24	FY23
Total tangible assets	115.95	139.62
Total tangible equity	35.60	31.70
Net profit	3.61	0.21
Return on average assets (%)	2.8	0.2
Equity/assets (%)	30.7	22.7
Source: NTL; Ind-Ra		
Note: All ratios in the rating rationale are as per Ind-Ra methodology and can vary from those reported by the company		

Particulars (Standalone; INR billion)	1QFY25	FY24	FY23
Total tangible assets	111.70	100.57	84.49
Total tangible equity	30.08	28.71	21.96
Net profit	0.61	6.69	1.72
Return on average assets (%)	2.38	7.2	2.7
Equity/assets (%)	26.9	28.5	26.0
Total capital ratio (%)	-*	28.07	27.19
Source: NFL; Ind-Ra			
Note: All ratios in the rating rationale are as per Ind-Ra methodology and can vary from those reported by the company			
*CRAR as on 30 June 2024 stood at 26.85%			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook								
	Rating Type	Rated Limits (million)	Rating/Outlook	18 August 2023	12 September 2022	6 May 2022	12 April 2022	17 February 2022	24 December 2021	29 October 2021	23 September 2021	13 August 2021
Principal protected market-linked debentures	Long-term	INR3,000	WD	IND PP-MLD A/Stable	PP-MLD Aemr/Stable	IND PP-MLD Aemr/Stable	IND PP-MLD Aemr/Stable	IND PP-MLD Aemr/Stable	IND PP-MLD Aemr/Stable	IND PP-MLD Aemr/Stable	IND PP-MLD Aemr/Stable	IND PP-MLD Aemr/Stable
Non-convertible debentures	Long-term	INR19,985	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable
Commercial paper	Short-term	INR10,000	IND A1	IND A1	IND A1	IND A1	IND A1	IND A1	IND A1	IND A1	IND A1	-

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Commercial paper	Low
Non-convertible debentures	Low
Principal protected market-linked debentures (fungible between NCDs and PP-MLDs)	High

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Annexure

Non-Convertible Debentures						
Instrument Type	ISIN	Date of Issuance	Coupon Rate(%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	INE342T07114	18-Jan-22	9.5	31-Dec-24	350.0	IND A/Stable
NCDs	INE342T07346	23-Feb-23	9.50	28-Feb-24	500.0	WD/Paid in Full
NCDs	INE342T07320	2-Dec-22	9.0	20-Mar-23	200.0	WD/Paid in Full
NCDs [^]	INE342T07338	30-Dec-22	9.9	5-Jan-24	1,000.0	WD/Paid in Full
NCDs	INE342T07247	25-Aug-22	9.5	30-Sep-24	300.0	IND A/Stable
NCDs	INE342T07205	8-Jun-22	9.4	8-Sep-24	380.0	IND A/Stable
NCDs	INE342T07213	8-Jun-22	9.75	8-Sep-24	250.0	IND A/Stable
NCDs	INE342T08047	6-Dec-22	10.5	31-Jul-25	350.0	IND A/Stable
NCDs	INE342T07361	29-May-23	2	29-Nov-24	750.0	IND A/Stable
NCDs	INE342T07429	11-Dec-23	10.25	31-Dec-26	1,000.0	IND A/Stable
NCDs	INE342T07486	4-Jun-24	10.25	15-Sep-25	950.0	IND A/Stable
NCDs	INE342T07494	18-Jun-24	10.5	18-Jun-27	750.0	IND A/Stable
NCDs	INE342T07502	22-Jul-24	9.25	22-Jan-26	500.0	IND A/Stable
NCDs	INE342T07304	23-Nov-22	9.25	27-Dec-23	500.0	WD/Paid in Full
NCDs	INE342T07189	8-Jun-22	9.20	8-Dec-23	3,460.0	WD/Paid in Full
NCDs	INE342T07197	8-Jun-22	9.50	8-Dec-23	870.0	WD/Paid in Full
NCDs	INE342T08039	14-Nov-22	9.5	15-Nov-23	400.0	WD/Paid in Full
NCDs	INE342T07080	30-Sep-21	9.15	30-Sep-23	800.0	WD/Paid in Full
NCDs	INE342T07056	25-Aug-21	9.6	25-Aug-23	300.0	WD/Paid in Full
NCDs	INE342T07353	12-May-23	9.00	3-Aug-23	300.0	WD/Paid in Full
NCDs	INE342T07221	30-Jun-22	1.0	4-Jul-23	250.0	WD/Paid in Full
NCDs ^{\$}	INE342T07296	22-Nov-22	9	28-Dec-23	498.8	WD/Paid in Full
NCDs [*]	INE342T07270	28-Oct-22	9	31-Dec-23	638.0	WD/Paid in Full
NCDs ^{**}	INE342T08021	17-Oct-22	9	30-Oct-23	500.0	WD/Paid in Full
NCDs [#]	INE342T07288	18-Nov-22	9	29-Dec-23	260.0	WD/Paid in Full
NCD (Utilized Limits)					5,580.0	
Un-utilized					8,476.5	IND A/Stable
Total NCD Limits					14,056.5	

^Final redemption premium rate is 9.8%; \$: Prepaid on March 06, 2023; *Prepaid on February 28, 2023; **Prepaid on January 06, 2023; #Prepaid on December 30, 2022

Source: NSDL, NFL

Public NCDs:						
Instrument Type	ISIN	Date of Issuance	Coupon Rate(%)	Maturity Date	Size of Issue (million)	Rating/Outlook
Public NCDs	INE342T07411	18-Jul-23	9.75	18-Jan-25	1929.2	IND A/Stable
Public NCDs	INE342T07379	18-Jul-23	10.25	18-Oct-25	972.5	IND A/Stable
Public NCDs	INE342T07395	18-Jul-23	10.75	18-Oct-25	731.8	IND A/Stable
Public NCDs	INE342T07387	18-Jul-23	10.50	18-Jul-26	675.0	IND A/Stable
Public NCDs	INE342T07403	18-Jul-23	11.02	18-Jul-26	507.9	IND A/Stable
Public NCDs (utilised)					4816.3	
Public NCDs (un-utilised)					183.7	IND A/Stable
Total					5000.0	

Source: NSDL, NFL

PP-MLDs:						
Instrument Type	ISIN	Date of Issuance	Coupon Rate(%)	Maturity Date	Size of Issue (million)	Rating/Outlook
PP-MLD	INE342T07122	28-Jan-22	Variable Index Linked *	31-Jul-24	500.00	IND PP-MLD A/Stable
PP-MLD	INE342T07239	28-Jul-22	IN0020210244^	28-Feb-24	1,000.00	WD/Paid in Full
PP-MLD	INE342T07254	27-Sep-22	INE0020210095&	30-Jan-26	428.74	IND PP-MLD A/Stable
PP-MLD	INE342T07023	17-Dec-20	10.00	16-Jun-22	469.00	WD/Paid in Full
PP-MLD	INE342T07015	26-Nov-20	10.00	26-May-22	750.00	WD/Paid in Full
PP-MLD	INE342T07031	15-Mar-21	9.25	17-Jun-22	1,000.00	WD/Paid in Full
PP-MLD	INE342T07148	23-Feb-22	G-Sec Linked**	23-Feb-24	1,000.00	WD/Paid in Full
PP-MLD	INE342T07155	15-Mar-22	G-Sec Linked**	15-Mar-24	1,500.00	WD/Paid in Full
PP-MLD	INE342T07163	31-Mar-22	G-Sec Linked#	31-May-25	300.00	WD/Paid in Full
PP-MLD	INE342T07262	28-Sep-22	Govt Sec ISIN IN0020210244\$	27-Mar-24	1,000.00	WD/Paid in Full
PP-MLD	INE342T07312	30-Nov-22	Govt sec ISIN IN0020210244\$	30-May-24	1,000.00	WD/Paid in Full
Total PP-MLD					928.74	
Total					928.74	

Source: NSDL, NFL

^Expected redemption rate is 8.65%; &Expected redemption rate is 8.37%; *Expected redemption rate is 9.25%

**final redemption premium rate is 8.6%; # Final redemption premium rate is 9.9%; \$ Final redemption premium rate is 9.0%.

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APPLICABLE CRITERIA

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

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