

India Ratings Assigns Navi Finserv's PP-MLDs 'IND PP-MLD Aemr'/Stable and CP 'IND A1'; Affirms Existing Ratings

29

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

Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Principal protected market linked debentures (PP-MLDs)#				INR2,000	IND PP-MLD Aemr/Stable	Assigned
Commercial Paper (CPs)#				INR1,500	IND A1	Assigned
CPs	-	-	-	INR1,000	IND A1	Affirmed
PP-MLDs*, \$				INR2,000	IND PP-MLD Aemr/Stable	Affirmed
Non-convertible debentures (NCDs)*, \$				INR2,000	IND A/Stable	Affirmed
PP-MLDs \$				INR1,500	IND PP-MLD Aemr/Stable	Affirmed
PP-MLD**, \$				INR1,250	IND PP-MLD Aemr/Stable	Affirmed
NCDs**, \$				INR1,250	IND A/Stable	Affirmed

* The limits are for NCDs and are fungible with MLDs, and the amount to be taken into consideration is INR2,000 million.

** The limits are for NCDs and are fungible with MLDs, and the amount to be taken into consideration is INR1,250 million.

Yet to be issued

\$ Details in Annexure

The suffix 'emr' denotes the exclusion of the embedded market risk from the rating. The rating of MLDs is an ordinal assessment of the underlying credit risk of the instrument and does not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that coupon payment on these instruments will be based on the performance of a reference index (to be detailed in the information memorandum of the issue).

Analytical Approach: Ind-Ra has taken a consolidated view of NFPL (100% owned by Navi Technologies Private Limited; NTPL), Chaitanya India Fin Credit Private Limited (CIFCPL; 'IND A/Stable'); 100%) and NTPL, collectively known as the Navi group, to arrive at the ratings. This is because the Navi group's operating entities are considered vehicles to deliver different forms of financial services to the target segment, and the ultimate parent, NTPL, provides technological backbone and support to the subsidiaries.

The ratings reflect NFPL's and Navi group's large capital base available for deployment, comfortable and modest leverage in the near to medium term, and comfortable liquidity available.

KEY RATING DRIVERS

Large Capital Base; Deployment Likely Across Various Segments: NFPL, which is also a holding company of the Navi Group's non-banking financial company – microfinance institution (NBFC-MFI; CIFCPL), is a lending subsidiary of NTPL. NTPL was set up to invest in and provide technological platforms to the financial companies of the group. The company was set up by the founder and ex-promoter of Flipkart, Sachin Bansal, who infused INR40 billion into

various financial ventures of the group in FY20. Apart from the lending business, the group also owns a general insurance company (Navi General Insurance), which was acquired from Dewan Housing Finance Limited in FY20. In addition, the group has broking and investment advisory licences and has also acquired the asset management business (Navi AMC Limited) from Essel Finance AMC.

NTPL has about INR40 billion of equity that is available for the financial services. The company had infused INR11.5 billion in NFPL as of March 2021, INR4.87 billion in the insurance vertical and INR1.0 billion in the asset management company. CIFCPL and NFPL house the lending vertical of the group and are important for the planning and execution of the group's lending strategy, which aims at becoming a full-fledged financial services conglomerate. Furthermore, CIFCPL has applied for banking license on behalf of the group.

Leverage Likely to Remain Modest: NTPL infused INR11.5 billion equity in NFPL over FY20-FY21, including INR1 billion in March 2021, and also provided an additional interest-free investment through NCDs to be managed for the group through NFPL's treasury operations; the outstanding amount through these NCDs as at end-September 2021 was INR14 billion; hence, this was not considered for leverage calculations. The group's leveraged business will mainly be the lending business that will be housed under NFPL.

The company is ramping up its lending businesses, including the micro-finance business through CIFCPL. While the agency expects the consolidated leverage (total lending vertical debt excluding internal debt/infused equity of INR11.5 billion) of the lending vertical to be modest over the medium term (end-September 2021: 1.5x), the company intends to cap it at 3.5x. Simultaneously, the company plans to maintain strong liquidity buffers to face any liquidity crunch that may arise, factoring in the uncertain environment.

Eminent Board and Advisors: With the company expanding its operations, it has set up an experienced board with Nachiket Mor and R Natarajan as independent directors. It has also enlisted the services of veteran banker, Paresh Suthankar, as advisor to the board for lending, banking and other businesses. While the management team has experience in the areas of microfinance, banking, retail lending and technology, Ind-Ra expects the management team to be expanded and strengthened as lending operations and product suite expand over the next few quarters.

Reserve Equity to Support Business Requirements: Of the INR40 billion corpus, NTPL had infused INR17.4 billion, mainly in the lending and insurance businesses, as of March 2021, with the balance being available for equity infusion, further expansion in related verticals, and contingent support to group companies, as and when required. This surplus has mostly been lent to NFPL through interest-free debentures, and subsequently invested largely in capital markets. The track record of the promoters provides the group with substantial experience in fund raising.

Liquidity Indicator – Adequate: Until INR40 billion is fully deployed as equity, the undeployed proportion is available for liquidity support; the excess has mostly been deployed in treasury investments in NFPL and can be mobilised quickly for liquidity support. As more than 69% of the debt has been borrowed from the parent, the company has raised only modest debt from banks or capital markets. For the operational levels that NFPL aims to reach until FY22, this is substantial; over the next two-to-three years, most of this would be deployed in equity towards existing and new businesses in financial services. On a steady state basis, the company plans to maintain adequate liquidity on its balance sheet and operate with no short-term mismatches in its asset-liability tenor. Over the medium term, the group plans to maintain liquidity buffers that are higher than those of its peers even if all the equity is fully deployed. The overall leverage of the lending businesses has been capped at 3.5x over the medium term and is likely to aid the liquidity position of the group. On a standalone basis, the short-term surplus (excess of short-term assets over liabilities) for NFPL was about 6% at end-September 2021 and about 16% for CIFCPL.

Brand and Franchise to Build-up Gradually: NFPL offers digital personal loans up to a ticket size of INR2 million; in the agency's opinion, this is the easiest product to build through purely digital means. However, this product was introduced only in May 2020 and has yet to witness seasoning. While NFPL also introduced home loans (up to INR50 million) in December 2020, the agency believes that the introduction and seasoning of new lending products, and stabilisation of the credit models could take time. Health insurers, in Ind-Ra's opinion, need INR8 billion-10 billion of equity and six-to-eight years to achieve breakeven. Also, a bulk of the insurance business takes place through agents, intermediaries, and marketplaces. Ind-Ra has not seen a purely digital general insurance company. NFPL is likely to be a core sales channel for the group's insurance business. Therefore, the company will have to fight for market share in the competitive insurance market, where intermediaries and marketplace play an important role. Also, the group has started operations on the brokerage and investment advisory front.

Operating Efficiency to Remain Modest in Medium Term: The consolidated assets under management for the lending business stood at about INR22.7 billion at end-September 2021. NFPL houses the digital personal loan (INR6.5 billion) and housing loan (INR0.8 billion) portfolios, while the microfinance portfolio (INR15.4 billion) is housed under its subsidiary, CIFCPL. The company had witnessed a strong momentum in its microfinance portfolio in FY21 and had been gradually building the digital personal loan portfolio, but the business momentum was hit in 1QFY22 by the disruptions caused by the second wave of COVID-19; however, with the Indian economy slowly recovering from the impact of the second wave, the company started reporting growth again in 2QFY22. The second wave of the pandemic had exerted pressure on the asset quality, with the consolidated gross non-performing assets ratio rising to 7.0% in June 2021 (FY21: 4%). As the combined group wrote off loans worth INR0.44 billion in 2QFY22, the consolidated gross non-performing assets improved to 4.5% in September 2021. Moreover, given the adequate provision coverage ratio of 82%, the net non-performing assets ratio was low at 0.8%.

On a standalone basis, NFPL's gross non-performing assets improved to 4.9% in September 2021 from 11.8% in June 2021 (FY21: 4.9%), largely on the back of write-offs and the provisions created in 2QFY22. As per the agency's calculations, the consolidated lending business is likely to have reported a profit of INR233 million in 1QFY22 (FY21: INR1,181 million), with NFPL recording a standalone profit of INR188 million (FY21: INR975 million). Ind-Ra opines that the lending business, with its organic plans, would take more than three years to reach a scale that could deliver a return on equity of over 15% for the group on INR40 billion even without any major economic disruptions. Operational efficiencies will show up gradually in tandem with the building up of scale, as the company is in the investment phase. On a consolidated basis, Ind-Ra expects the lending vertical to generate profit of INR0.5 billion-1 billion in FY22 and INR1.5 billion-2 billion in FY23, mainly on the back of the treasury operations as other businesses scale up to a critical size.

RATING SENSITIVITIES

Positive: A significant increase in the scale of the group's financial services business; the widening of its product portfolio and sufficient seasoning, while keeping the capital levels materially higher than peers, on a sustained basis, could lead to a positive rating action.

Negative: An inability to scale up as planned, consistently weak operating parameters, the lending business leverage exceeding 3.5x, consistent losses in the lending business or the asset quality deteriorating by over 10% on a consolidated basis, could lead to a negative rating action.

COMPANY PROFILE

NFPL, a wholly-owned subsidiary of the Navi group (main holding company is NTPL), holds 100% stake in CIFCPL, which has been in operations since 2009. The consolidated assets under management of the lending vertical stood at INR22.7 billion at end-September 2021. NTPL plans to foray into financial services business targeted at the middle class using technology as its core competency and developing innovative products.

STANDALONE FINANCIAL SUMMARY

Particulars	FY21	FY20
Total assets (INR million)	33,210	36,780
Total equity (INR million)	11,526	9,448
Net profit (INR million)	975	97
Return on average assets (%)	2.8	0.5
Equity/assets (%)	35.0	25.7
Capital adequacy ratio (%)	38.0	20.8
Source: Company data, Ind-Ra analysis		

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY21	FY20
Total assets (INR million)	47,373	45,833
Total equity (INR million)	11,526	9,448
Net profit (INR million)	1,181	148
Source: Company data, Ind-Ra analysis		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating/Outlook	23 September 2021	13 August 2021	12 March 2021	24 November 2020
PP-MLDs	Long-term	INR6,750	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
NCDs	Long-term	INR3,250	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable
CPs	Short-term	INR2,500	IND A1	IND A1	-	-	-

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate(%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	INE342T07056	25 August 2021	9.60	25 August 2023	INR300	IND A/Stable
NCDs	INE342T07072	30 September 2021	9.15	30 September 2023	INR40	IND A/Stable
PP-MLD	INE342T07064	21 September 2021	8.75	21 March 2023	INR650	IND PP-MLD Aemr/Stable
Utilised					INR990	
Unutilised					INR1,010	
Total					INR2,000	

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
PP-MLD	INE342T07015	26 November 2020	10.00	26 May 2022	INR750	IND PP-MLD Aemr/Stable
PP-MLD	INE342T07023	17 December 2020	10.00	16 June2022	INR469	IND PP-MLD Aemr/Stable

Utilised	INR1,219	
Unutilised	INR31	
Total	INR1,250	

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
PP-MLD	INE342T07031	17 March 2021	9.25	17 June 2022	INR1,500	IND PP-MLD Aemr/Stable
Utilised					INR1,500	
Unutilised					0	
Total					INR1,500	

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Description	Complexity Indicator
NCDs	Low
PP-MLDs	High
CPs	Low

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

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Applicable Criteria

[Financial Institutions Rating Criteria](#)

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