

NeoGrowth Credit Private Limited

July 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Non-convertible debentures	62.00	CARE BBB+; Stable	Revised from CARE BBB; Stable
Non-convertible debentures	18.50 (Reduced from 55.50)	CARE BBB+; Stable	Revised from CARE BBB; Stable
Non-convertible debentures	20.00 (Reduced from 26.67)	CARE BBB+; Stable	Revised from CARE BBB; Stable
Non-convertible debentures	6.67 (Reduced from 37.83)	CARE BBB+; Stable	Revised from CARE BBB; Stable
Non-convertible debentures	0.00 (Reduced from 49.33)	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to the long-term debt instruments of NeoGrowth Credit Private Limited (NCPL) factors in increase in scale of operations, improvement and stability in profitability metrics with NCPL earning profits for continuous two years, comfortable capitalisation metrics, and moderate but stable asset quality metrics in last two years. Ratings continue to factor in its founders' extensive experience in the e-payment processing industry, experienced management team, diversified resource profile largely comprising funds raised from overseas investors by way of non-convertible debentures (NCDs), external commercial borrowings (ECBs), and term loans from non-banking financial companies (NBFCs), with the proportion of borrowings from domestic lenders improving and moderate geographical diversification of the loan book.

However, ratings remain constrained by relatively riskier borrower profile and uncollateralised portfolio, relatively different business model which is yet to witness stable profitability, and lack of borrowing from domestic banks albeit improving.

CARE Ratings Limited (CARE Ratings) has withdrawn ratings assigned to the NCD amounting to ₹80.50 crore with immediate effect. The above action has been taken on account of full redemption.

Rating sensitivities: Factors likely to lead to rating actions

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

- Significant scaling up of operations with improvement in profitability and asset quality metrics.

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

- Increase in leverage above 4x.
- Deterioration in profitability metrics with annual return on total assets (ROTA) of less than 1%.
- Deterioration in the asset quality with net stressed assets to net worth over 15%.
- Deterioration in asset quality with increase in slippages from the delinquent loan portfolio on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The outlook is stable due to CARE Ratings' expectation that the company will be able to maintain or improve its profitability and asset quality parameters over the medium term while maintaining adequate capitalisation levels.

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

Detailed description of key rating drivers:

Key strengths

Demonstrated track record of equity capital mobilisation

NCPL has been able to raise equity capital periodically from promoters, private equity investors, and foreign institutional investors to fund its business operations. The company is backed by private equity investors and foreign institutional investors such as Omidyar Network, Lightrock, Khosla Impact Fund, Quona Capital, IIFL Venture Funds, and LeapFrog Investments. In FY23, the company raised USD 20 million (~₹160 crore) from Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO, Netherlands) by way of compulsorily convertible preference shares (CCPS) and around ₹44 crore from Leapfrog by way of compulsory convertible debentures (CCD). The founders, with MD & CEO Arun Nayyar also infused ₹6 crore by way of CCDs in June 2023.

The company has received capital support from some of its existing shareholders who have infused funds by way of CCD (CCD considered as part of net worth) which were converted into CCPS in December 2022. The company's existing shareholders have infused capital of ₹50 crore in June 2022 through CCDs. The company, per their plan has also been successful in raising ₹160 crore from FMO through CCPS in December 2022. Due to this capital infusion, the company has improved its capitalisation levels and shored up the net worth. The company's total net worth (TNW) has risen significantly from ₹502 crore as on March 31, 2023, to ₹606 crore as on March 31, 2024. NCPL's overall gearing stands at 3.53x as on March 31, 2024, as against 2.79x on March 31, 2023, due to increase in scale of operations funded largely by borrowings. As on March 31, 2024, NCPL reported an adequate capital adequacy ratio (CAR) of 28.48%, which is well above regulatory requirement of 15%. CARE Ratings expects the company to maintain comfortable capitalisation levels with overall gearing under 4x in the medium term as the company grows its lending book.

Extensive experience of the founders in the e-payments processing system industry

NCPL is founded by Piyush Khaitan and Dhruv Khaitan, who have over two decades of experience in the e-payment processing industry. Prior to incorporating NCPL, they had founded and managed 'Venture Infotek', an e-payment processing Company in India. The company's operations are headed by Arun Nayyar (Managing Director & Chief Executive Officer; MD & CEO) having over 20 years of experience in the NBFC industry comprising SME lending, business development, and risk management, and further managed by a professional management team under Arun Nayyar. The company is governed by Board of Directors comprising founders, independent directors, and nominee directors of the shareholders (including Leapfrog), apart from MD & CEO. In FY23, FMO has appointed a nominee director on the company's Board.

Improving scale of operations and profitability metrics

The company's asset under management (AUM) increased from ₹1,852 crore in FY23 to ₹2,750 crore in FY24 registering a growth of ~49%. NCPL's retail segment (Neo Cash) offers collateral-free loans for online /offline retailers having Point of Sale Machines and/or Online Sales or standard small ticket fixed tenure loans constituted around 64.6% of total AUM as on March 31, 2024. On the other hand, Supply Chain Finance, which includes lending to suppliers and retailers of large corporates has registered a CAGR of 34.27% over FY20-24 period comprising 35.4% of total AUM as on March 31, 2024. Both Employee and Branch productivity in terms of disbursement per branch and disbursement per employee is at 84.3 crore and 4.1 crore, respectively, in FY24, which are at best levels since FY21.

With stability in business operations post COVID-19, the company turned profitable in FY23 reporting a profit after tax (PAT) of ₹17 crore. In FY24, the net interest income substantially increased to ₹363.01 crore for FY24 from ₹202.56 crore for FY23 resulting in NIM (%) increasing to 15.11% for FY24 from 11.35% of FY23 due to lower reversal of interest income. Operating efficiency improved with operating expenses as % of average total assets reduced from 7.17% to 6.02%. However, the credit cost on average total assets increased from 3.91% in FY23 to 6.26% in FY24. Increasing credit cost is primarily due to reversal in provisions for restructured assets observed in FY23. Overall, PAT reported major improvement from ₹17.27 crore to ₹71.37 crore with ROTA improving from 0.97% to 2.97%

Improving resource profile

NCPL's resource profile is well diversified comprising borrowings through ECBs (constituting 25.8% of the borrowings as on March 31, 2024) and NCDs/Term loans (constituting each 21.6% of the borrowings as on March 31, 2024). The company has 21.4% of its borrowings from pass-through certificates (PTCs) and 9.1% from term loans from banks as on March 31, 2024. The borrowings (including PTC) from banks and NBFCs have increased from 33.6% in FY23 to 60.3% in FY24. Through ECB borrowings, the company borrows from international investment funds and developmental financial institutions (DFIs). Their

lender base saw a substantial 72% expansion, growing from 25 lenders in FY23 to 43 in FY24. Additionally, they onboarded five new banks and expanded their partnerships, especially with domestic lenders.

Going forward, the company's ability to raise resources at competitive rates and increase stable funding from domestic banking and other lenders continues to be a key rating monitorable.

Key weaknesses

Moderate asset quality metrics

The company's borrowers are largely small businesses that were severely impacted in the COVID-19 pandemic, consequent to which the company's asset quality parameters saw a sharp decline in FY21 and FY22. Majority of the loan portfolio has a daily repayment mechanism, helping NCPL to track the borrower's business and analyse its repayment capability at an early stage. The asset quality parameters have improved with the gross NPA (GNPA; including the OTR accounts that are performing, but due to the non-availability of GST registration, have been classified as Stage 3 assets) at 3.60% as on March 31, 2024, after peaking at 12.93% as on March 31, 2022. The restructured book as a proportion of the loan book has been coming down, as the company continues to make collections from the restructured book and write-offs. The gross restructured assets as a % of loan portfolio has significantly reduced from peak of 30.72% in FY21 to 0.07% in FY24.

NCPL continues to have high write-offs, majority of which are restructured accounts. The company wrote off ₹74 crore, ₹158 crore, and ₹84 crore (net of recoveries) in FY22, FY23, and FY24. Adjusted gross NPA (Gross NPA plus net write-offs as a percentage of the gross loan book plus net write-off) for NCPL stood at 11.25% and 6.60% for March 31, 2023 and March 31, 2024 respectively. The total provision coverage ratio (PCR) stood at 4.6% (FY23: 4.3%) and for stage 3 loans it stood at 57.3% (FY23: 65.5%) as on March 31, 2024. The net NPA (NNPA) to TNW stood at 3.79% as on March 31, 2023 vs 6.81% as on March 31, 2024.

As NCPL is primarily lending towards the business finance needs of the organised and unorganised micro, small and medium enterprise (MSME) segment in the urban and semiurban areas, characterised by a marginal credit profile of the borrowers and is not serviced by the banking sector, the segment is sensitive to the impact of economic shocks. NCPL has a relatively unique business model, as it offers collateral free loans to its customers per their requirements, basis point-of-sale (POS) machine digital sales and cash inflows. This business of lending to merchants is unique in India, wherein an NBFC such as NCPL has taken a first-mover advantage with this lending solution adopted from foreign countries, popularly known as 'Merchant Cash Advances (MCA)'. However, NCPL's business model is yet to see stable performance and profitability in view of the market disruptions seen in the last seven years, including demonetisation, the implementation of the Goods and Services Tax (GST) and COVID-19. The company's ability to maintain the asset quality and control the credit costs, and ultimately, profitability, will be a key rating sensitivity.

Liquidity: Adequate

The company's liquidity profile is comfortable with cumulative positive mismatches up to one year. Per the ALM profile as on March 31, 2024, the company has principal debt repayment of ₹1,131 crore in next one year, against which the company had cash and bank balance of ₹166.6 crore (unencumbered), undrawn bank lines of ₹17.2 crore, and principal receivable of ₹1,521 crore in next one year.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Withdrawal Policy](#)

[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)

NCPL is an NBFC founded by the Dhruv Khaitan and Piyush Khaitan (Khaitan Brothers). The company was incorporated in September 2012 and is registered as a systemically important non-deposit taking NBFC (NBFC-ND -SI). The company offers customised loans to the retail and small & medium-sized businesses having digital receipts. These loans are generally extended against future credit card and debit card sales / receivables. However, the company recently have extended the purview to the entire bank account receipts of the customer. The company has been raising equity capital from private equity investors, and the major shareholders apart from FMO's founders, Leapfrog, ON Mauritius, Accion Frontier Inclusion Mauritius, Aspada Investment Company, IIFL Seed Ventures Fund I, and Khosla Impact I Mauritius. NCPL's business model enables a flexible automated daily/weekly/fortnightly/monthly repayment mechanism for its borrowers.

Standalone Financials of NCPL

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024(A)
Total income	362.76	382.94	601.39
PAT	-39.45	17.27	71.37
Total assets	1592.66	1976.07	2829.52
Net NPA (%)	4.71	1.15	1.60
ROTA (%)	-2.43	0.97	2.97

A: Audited ; Note: these are latest available financial results

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures - non-convertible debentures	INE814O07287	09-Dec-2020	11.65%	09-Dec-2024	18.50	CARE BBB+; Stable
Debentures- non-convertible debentures	INE814O07311	19-Mar-2021	14.50%	19-Mar-2024	-	Withdrawn

Debentures-non-convertible debentures	INE814O07337	18-Jun-2021	12.39%	13-Jun-2026	-	Withdrawn
Debentures-non-convertible debentures	INE814O07345	10-Mar-2022	12.55%	10-Mar-2025	20.00	CARE BBB+; Stable
Debentures – non-convertible debentures	INE814O07352	31-Mar-2022	13.50%	30-Mar-2024	6.67	CARE BBB+; Stable
Debentures - non-convertible debentures	INE814O07303	25-Feb-2021	12.29%	13-Feb-2026	-	Withdrawn
Debentures - non-convertible debentures	INE814O07329	18-Mar-2021	14.50%	18-Mar-2024	-	Withdrawn
Debentures - non-convertible debentures	INE814O07386	03-Sep-2019	12.80%	03-Sep-2025	62.00	CARE BBB+; Stable

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	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21) 2)CARE BBB+; Negative (17-Jun-21)
2	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21) 2)CARE BBB+; Negative

								(17-Jun-21)
3	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21) 2)CARE BBB+; Negative (17-Jun-21)
4	Debentures-Non-convertible debentures	LT	62.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21) 2)CARE BBB+; Negative (17-Jun-21)
5	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21) 2)CARE BBB+; Negative (17-Jun-21)
6	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21) 2)CARE BBB+; Negative (17-Jun-21)
7	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21) 2)CARE BBB+; Negative

								(17-Jun-21)
8	Debentures-Non-convertible debentures	LT	18.50	CARE BBB+; Stable	-	1)CARE BBB; Stable (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21) 2)CARE BBB+; Negative (17-Jun-21)
9	Fund-based - LT-Proposed fund-based limits	LT	-	-	-	1)Withdrawn (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21)
10	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn 1)CARE BBB; Stable (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21) 2)CARE BBB+; Negative (17-Jun-21)
11	Debentures-Non-convertible debentures	LT	20.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21) 2)CARE BBB+; Negative (17-Jun-21)
12	Debentures-Non-convertible debentures	LT	6.67	CARE BBB+; Stable	-	1)CARE BBB; Stable (22-Aug-23)	1)CARE BBB-; Stable (23-Aug-22)	1)CARE BBB; Negative (24-Aug-21) 2)CARE BBB+; Negative (17-Jun-21)

LT: Long term; ST: Short term; LT/ST: Long term/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	Debentures-Non-convertible debentures	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Note on complexity levels of 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 clarifications.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Vineet Jain Senior Director CARE Ratings Limited Phone: 912267543623 E-mail: vineet.jain@careedge.in
Relationship Contact Pradeep Kumar V Senior Director CARE Ratings Limited Phone: 914428501001 E-mail: pradeep.kumar@careedge.in	Jitendra Meghrajani Assistant Director CARE Ratings Limited Phone: 912267543526 E-mail: Jitendra.Meghrajani@careedge.in
	Ashutosh Duda Lead Analyst CARE Ratings Limited E-mail: Ashutosh.Duda@careedge.in

About us:

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