

Rating Rationale

December 11, 2024 | Mumbai

Navi Finserv Limited

Ratings removed from 'Watch Negative'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.3250 Crore
Long Term Rating	CRISIL A/Stable (Removed from 'Rating Watch with Negative Implications'; Rating Reaffirmed)
Short Term Rating	CRISIL A1 (Removed from 'Rating Watch with Negative Implications'; Rating Reaffirmed)

Rs.1000 Crore Non Convertible Debentures	CRISIL A/Stable (Removed from 'Rating Watch with Negative Implications'; Rating Reaffirmed)
Rs.500 Crore Non Convertible Debentures [^]	CRISIL A/Stable (Removed from 'Rating Watch with Negative Implications'; Rating Reaffirmed)
Rs.600 Crore Non Convertible Debentures ^{&}	CRISIL A/Stable (Removed from 'Rating Watch with Negative Implications'; Rating Reaffirmed)

[^] For public issuance

& For public issuance

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the bank facilities and non convertible debentures of Navi Finserv Limited (NFL) from 'Rating Watch with Negative Implications' and has reaffirmed the ratings at 'CRISIL A/CRISIL A1' while assigning a 'Stable' outlook to the long term rating.

The rating action follows lifting of the regulatory directive to cease and desist from sanction and disbursal of loans by NFL, as disclosed by the company and the Reserve Bank of India (RBI) vide announcement dated December 2, 2024, thereby allowing NFL to resume sanctions and disbursements.

CRISIL Ratings understands that NFL has taken various remedial measures to align its policies and processes including the pricing policy. The company has reduced its pricing for personal loans, which will reduce spreads between the company's weighted average lending rate over its cost of funds. Revision in the pricing policy might have some impact on the company's profitability in the near term. However, the company has taken cost-saving measures, which should partly offset the impact of revised pricing. As per the revised pricing policy, the company has brought down its maximum interest rate on personal loans to ~26% from 35% earlier, and 13% for home loans from 14% earlier. Expected improvement in the borrower's credit profile, given the company's focus on lower interest rate segment (wherein the delinquencies, historically, have relatively been lower), should result in the improvement of overall credit costs, along with reduction in operating costs is likely to limit the impact on profitability. The ability to maintain healthy profitability will remain a key rating sensitivity factor.

The ratings continue to reflect the healthy capital position of the company, strong risk management systems and diversified resource profile. These strengths are partially offset by average profitability, and inherent vulnerability in asset quality due to the unsecured nature of loans. The company also remains vulnerable to the changing regulatory landscape for digital lenders. Adverse impact of regulatory changes will be monitorable.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has considered the standalone business and financial risk profiles of NFL.

Key Rating Drivers & Detailed Description

Strengths:

Healthy capitalisation

Mr Sachin Bansal, CEO of NFL, holds ~98% stake in Navi Technologies Ltd (NTL), which holds 100% stake in NFL. Most of NTL's consolidated network of Rs 4,066.3 crore as on March 31, 2024, has been deployed in NFL as equity and convertible debt. NFL received additional capital of Rs 950 crore from NTL in fiscal 2023 through the issuance of equity shares and compulsory convertible debentures (CCDs). NFL's standalone network stood at Rs 2,270 crore as on March 31, 2023. In fiscal 2024, NFL received Rs 1,169 crore from the sale of its microfinance arm, Chaitanya India Fin Credit Pvt Ltd (CIFCPL), which enhanced its capital base to Rs 2,934 crore as on March 31, 2024. NFL's network stood at Rs 3,066 crore as on September 30, 2024. Correspondingly, NFL's gearing remained comfortable at 2.2 times as on March 31, 2024 (2.5 times as on September 30, 2024). CRISIL Ratings believes NFL's capitalisation will remain healthy but will be monitorable. The gearing is expected to be sustained below 4.0 times over the medium term.

Adequate risk management systems

The company's risk management systems have been evolving, in line with changes in the operating environment and to support increasing scale, primarily in the form of increasing effectiveness of the Navi app and underwriting through retrained models and tight monitoring. With an expanding data base, the machine learning models used by NFL are improving with every retrain leading to better risk separation by models. The company has also been continuously focusing on better selection of borrowers through the underwriting models, stringent approval rates and tight monitoring and collection systems. The company has been operating with a full-fledged digital underwriting engine and will continue to strengthen the same. Furthermore, it has strengthened its underwriting policies.

Recent and new originations have been performing well, as evidenced by the current 30 PAR (static) across loan tenure buckets. The company's ability to sustain improvement in the asset quality will remain a key rating sensitivity factor.

Diversified resource profile

NFL's resource profile is fairly diversified across product and lender type. The lender base has expanded with more banks and other financial institutions coming onboard. While the funding base was skewed towards debt from NTL in the past, the share has declined significantly in favour of increasing term funding and capital market issuances. Of the total external outstanding borrowing of Rs 7,323 crore as on October 30, 2024, 41% was in the form of term loans, 24% pass-through certificates, 27% non-convertible debentures, 7% commercial paper and 1% market-linked debentures. In fiscal 2024, NFL raised ~Rs 6,700 crore at average cost of borrowing of ~10%. Furthermore, the company has been able to raise Rs 25 crore of commercial paper and Rs 300 crore through Pass Through Certificate post lifting of regulatory restrictions.

Weaknesses:**Average profitability**

The company reported profit after tax (PAT) of Rs 116 crore in fiscal 2024 compared with Rs 97 crore in fiscal 2023. This excludes the one-off gain on stake sale in subsidiary CIFCPL. Including the one-off, the PAT was 669 crore in fiscal 2024 and Rs 172 crore in fiscal 2023. The company reported PAT of Rs 130 crore in the first half of fiscal 2025. Return on managed assets (ROMA) (excluding one-offs) was 1.8% (annualised) in the first half of fiscal 2025 against 1% in fiscal 2024 and 1.4% in fiscal 2023.

The company's earnings profile has been constrained due to high operating expenditure and elevated credit costs. The operating expenditure (opex) (on average managed assets) ratio, although improving, remained high at 5.2% and 5.5% in fiscals 2024 and 2023, respectively. In the first half of fiscal 2025, the opex ratio was 4.7%. Going forward, this is expected to further improve as the company has reduced its technology sharing and sourcing cost.

Credit cost improved to 4.3% in fiscal 2024 from 5.3% in fiscal 2023. In the first half of fiscal 2025, the credit cost was 4.2%. This is expected to improve further with the company incrementally focusing on borrowers with relatively stronger credit profiles within the personal loan segment and also gradually increasing the share of secured loans.

The company's revised pricing policy might have an impact on the net interest margin (NIM), which stood at 8.8% for the half year ended September 30, 2024 (8.3% for fiscal 2024). However, the reduction in opex and lowering of credit cost should partly offset the impact on NIM. The ability to maintain healthy profitability will be a key monitorable.

Susceptibility of asset quality given unsecured nature of loans

NFL's gross non-performing assets (GNPA) and net non-performing assets (NNPA) stood at 2.04% and 0.34%, respectively, as on September 30, 2024, as against 1.94% and 0.15%, respectively, as on March 31, 2024. While the delinquencies improved in fiscal 2024, the adjusted 90+ days past due (dpd) (including trailing twelve months' write-offs) stood elevated at 5.5% as on September 30, 2024, as against 5.4% as on March 31, 2024, and 2.8% as on March 31, 2023.

The company offers digital personal loans which comprised 89% of the assets under management (AUM) as on September 30, 2024, wherein the borrower profile remains vulnerable to slippage, especially in times of macroeconomic headwinds. The 90+ dpd peaked during the pandemic. However, with strengthening of the underwriting policy and processes, the asset quality has improved thereafter.

With the revision in pricing policy, the company will focus more on the high credit quality borrowers. This, along with the company's plans to increase its focus on secured loans, will further support the asset quality metrics of the company. The 90+ dpd on home loans was 0.4% as on September 30, 2024, and 0.2% as on March 31, 2024. NFL's ability to improve asset quality as the portfolio scales up will remain monitorable.

Liquidity: Strong

Asset-liability maturity profile was comfortable as on September 30, 2024, with positive mismatch across all buckets up to five years. As on November 27, 2024, NFL had ~Rs 1,498 crore of unencumbered cash and liquid investments. Against this, it has ~Rs 1,288 crore of debt obligation over the next three months. In addition, liquidity buffer of ~Rs 400 crore available with NTL (as on November 30, 2024) shall provide a cushion, in case of any exigency.

Outlook: Stable

CRISIL Ratings believes NFL's capital position will remain strong in relation to the scale and the nature of its operations, largely supported by NTL's demonstrated track record and future commitment of extending support.

Rating Sensitivity Factors**Upward Factors**

- Sustenance in asset quality with GNPA remaining below 3% for the lending business amid scale-up in operations
- Sustained improvement in credit costs supporting the profitability

Downward Factors

- Any change in the stance of support by NTL to NFL, potentially leading to capital position being weaker than estimated; significant rise in the gearing for NFL to beyond 3.5 times

- Any deterioration in overall or standalone asset quality and profitability

About the Company

NFL is a non-deposit taking, systemically important non-banking financial company registered with the Reserve Bank of India (RBI) and is a wholly owned subsidiary of NTL. NFL obtained a certificate of registration in March 2016 from the RBI. NFL offers lending products such as personal loans and home loans under the Navi brand. Mr Sachin Bansal, the CEO of NFL, holds about 98% stake in NTL.

In fiscal 2024, NFL reported PAT of Rs 660 crore with a ROMA of 5.8%. The PAT was 130 crore and ROMA was 1.8% in the first half of fiscal 2025.

Key Financial Indicators: (Standalone)

As on/for the period ended	Unit	Sept-24	Mar-24	Mar-23	Mar-22
Total managed assets [^]	Rs crore	14984	13218	9788	3593
Total income [#]	Rs crore	1194	2614	1377.1	459.9
Profit after tax [#]	Rs crore	130	660	172.0	-66.9
Gearing (including debt from NTL)	Times	2.5	2.2	2.5	2.4
Gearing (excluding intra group debt)	Times	2.4	2.1	2.4	1.8
Return on managed assets (annualised) ^{^#}	%	1.8*	5.8	2.5	-1.8

#Including treasury gains

*Annualised

[^]Including off-book

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Levels	Rating Outstanding with Outlook
INE342T07379	Non Convertible Debentures	18-Jul-23	10.25	18-Oct-25	97.25	Simple	CRISIL A/Stable
INE342T07387	Non Convertible Debentures	18-Jul-23	10.50	18-Jul-26	67.5	Simple	CRISIL A/Stable
INE342T07395	Non Convertible Debentures	18-Jul-23	10.75	18-Oct-25	73.18	Simple	CRISIL A/Stable
INE342T07403	Non Convertible Debentures	18-Jul-23	11.02	18-Jul-26	50.79	Simple	CRISIL A/Stable
INE342T07411	Non Convertible Debentures	18-Jul-23	9.75	18-Jan-25	192.92	Simple	CRISIL A/Stable
INE342T07437	Non Convertible Debentures	13-Mar-24	10.40	14-Jun-26	95.14	Simple	CRISIL A/Stable
INE342T07445	Non Convertible Debentures	13-Mar-24	11.19	14-Mar-27	49.8	Simple	CRISIL A/Stable
INE342T07452	Non Convertible Debentures	13-Mar-24	10.90	14-Jun-26	64.02	Simple	CRISIL A/Stable
INE342T07460	Non Convertible Debentures	13-Mar-24	10.65	14-Mar-27	94.29	Simple	CRISIL A/Stable
INE342T07478	Non Convertible Debentures	13-Mar-24	10.00	14-Sep-25	221.29	Simple	CRISIL A/Stable
INE342T07510	Non Convertible Debentures	13-Aug-24	10.40	13-Nov-26	100	Simple	CRISIL A/Stable
INE342T07528	Non Convertible Debentures	13-Aug-24	10.40	13-Feb-26	250	Simple	CRISIL A/Stable
INE342T07536	Non Convertible Debentures	28-Aug-24	10.50	27-Aug-27	150	Simple	CRISIL A/Stable
NA	Non Convertible Debentures [#]	NA	NA	NA	593.82	Simple	CRISIL A/Stable
NA	Working Capital Demand Loan	NA	NA	NA	20	NA	CRISIL A/Stable
NA	Working Capital Demand Loan	NA	NA	NA	135	NA	CRISIL A1
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	191.6	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	3-Apr-26	55.16	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Dec-25	59.79	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	28-Jul-25	146.85	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	15-Sep-26	97	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	5-Sep-27	87.28	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Aug-25	40	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	28-Feb-27	59.36	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Aug-27	366.65	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Sep-27	96.98	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Mar-26	25	NA	CRISIL A/Stable

NA	Term Loan	NA	NA	31-May-26	277.21	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Apr-26	76.25	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Sep-26	40.63	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Jul-28	25	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Sep-26	50	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	28-Feb-27	50	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	22-May-25	50	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	5-Apr-27	15	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	27-Feb-26	94.63	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	18-May-25	108	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	22-Aug-24	0.86	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	20-Mar-26	26.25	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-May-25	105.83	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	10-Jun-26	43.94	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	29-Nov-26	189.33	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	20-Jan-26	67.5	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Mar-26	28.23	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	28-Jun-24	4.17	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	17-Mar-25	14.58	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Mar-26	79.22	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Mar-25	9.55	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-May-27	181.82	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	28-Jun-26	84	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	25-Jul-26	36.22	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-May-25	7	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	29-Jan-26	88.54	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	28-Feb-26	75.01	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	22-May-25	4.61	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	5-Sep-25	10.95	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-May-27	25	NA	CRISIL A/Stable

#Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	3250.0	CRISIL A1 / CRISIL A/Stable	24-10-24	CRISIL A/Watch Negative / CRISIL A1/Watch Negative	04-12-23	CRISIL A1 / CRISIL A/Stable	02-12-22	CRISIL A1 / CRISIL A/Stable	10-12-21	CRISIL A-/Stable	CRISIL A-/Stable
			--	07-10-24	CRISIL A1 / CRISIL A/Stable	13-10-23	CRISIL A1 / CRISIL A/Stable	30-09-22	CRISIL A-/Stable	09-06-21	CRISIL A-/Stable	--
			--	12-09-24	CRISIL A1 / CRISIL A/Stable	22-09-23	CRISIL A1 / CRISIL A/Stable	22-06-22	CRISIL A-/Stable		--	--
			--	31-07-24	CRISIL A1 / CRISIL A/Stable	16-08-23	CRISIL A1 / CRISIL A/Stable	23-02-22	CRISIL A-/Stable		--	--
			--	01-07-24	CRISIL A1 / CRISIL A/Stable	06-07-23	CRISIL A1 / CRISIL A/Stable	18-02-22	CRISIL A-/Stable		--	--
			--	19-06-24	CRISIL A1 / CRISIL A/Stable	09-06-23	CRISIL A1 / CRISIL A/Stable		--		--	--
			--	23-04-24	CRISIL A1 / CRISIL A/Stable	03-05-23	CRISIL A1 / CRISIL A/Stable		--		--	--
			--	28-03-24	CRISIL A1 / CRISIL A/Stable	30-03-23	CRISIL A1 / CRISIL A/Stable		--		--	--
			--	22-02-24	CRISIL A1 / CRISIL A/Stable	29-03-23	CRISIL A1 /		--		--	--
			--									

					A/Stable		CRISIL A/Stable					
			--	15-01-24	CRISIL A1 / CRISIL A/Stable	13-01-23	CRISIL A1 / CRISIL A/Stable		--		--	--
Non Convertible Debentures	LT	2100.0	CRISIL A/Stable	24-10-24	CRISIL A/Watch Negative	04-12-23	CRISIL A/Stable		--		--	--
			--	07-10-24	CRISIL A/Stable	13-10-23	CRISIL A/Stable		--		--	--
			--	12-09-24	CRISIL A/Stable	22-09-23	CRISIL A/Stable		--		--	--
			--	31-07-24	CRISIL A/Stable	16-08-23	CRISIL A/Stable		--		--	--
			--	01-07-24	CRISIL A/Stable	06-07-23	CRISIL A/Stable		--		--	--
			--	19-06-24	CRISIL A/Stable	09-06-23	CRISIL A/Stable		--		--	--
			--	23-04-24	CRISIL A/Stable		--		--		--	--
			--	28-03-24	CRISIL A/Stable		--		--		--	--
			--	22-02-24	CRISIL A/Stable		--		--		--	--
			--	15-01-24	CRISIL A/Stable		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	191.6	Not Applicable	CRISIL A/Stable
Term Loan	9.55	The Karur Vysya Bank Limited	CRISIL A/Stable
Term Loan	181.82	Bank of Maharashtra	CRISIL A/Stable
Term Loan	84	Hinduja Leyland Finance Limited	CRISIL A/Stable
Term Loan	36.22	Utkarsh Small Finance Bank Limited	CRISIL A/Stable
Term Loan	7	CSB Bank Limited	CRISIL A/Stable
Term Loan	88.54	The Federal Bank Limited	CRISIL A/Stable
Term Loan	146.85	JM Financial Products Limited	CRISIL A/Stable
Term Loan	59.36	Indian Overseas Bank	CRISIL A/Stable
Term Loan	366.65	State Bank of India	CRISIL A/Stable
Term Loan	96.98	Canara Bank	CRISIL A/Stable
Term Loan	25	Kotak Mahindra Bank Limited	CRISIL A/Stable
Term Loan	277.21	HDFC Bank Limited	CRISIL A/Stable
Term Loan	76.25	Jana Small Finance Bank Limited	CRISIL A/Stable
Term Loan	15	Poonawalla Fincorp Limited	CRISIL A/Stable
Term Loan	67.5	MAS Financial Services Limited	CRISIL A/Stable
Term Loan	28.23	Manappuram Finance Limited	CRISIL A/Stable
Term Loan	4.17	Ujjivan Small Finance Bank Limited	CRISIL A/Stable
Term Loan	14.58	Piramal Enterprises Limited	CRISIL A/Stable
Term Loan	79.22	Axis Bank Limited	CRISIL A/Stable
Term Loan	40	IndusInd Bank Limited	CRISIL A/Stable
Term Loan	10.95	Shriram Housing Finance Limited	CRISIL A/Stable
Term Loan	25	Union Bank of India	CRISIL A/Stable

Term Loan	43.94	Tata Capital Financial Services Limited	CRISIL A/Stable
Term Loan	75.01	Aditya Birla Finance Limited	CRISIL A/Stable
Term Loan	4.61	Mahindra and Mahindra Financial Services Limited	CRISIL A/Stable
Term Loan	97	Kisetsu Saison Finance India Private Limited	CRISIL A/Stable
Term Loan	87.28	Poonawalla Fincorp Limited	CRISIL A/Stable
Term Loan	40.63	Bandhan Bank Limited	CRISIL A/Stable
Term Loan	25	Capital Small Finance Bank Limited	CRISIL A/Stable
Term Loan	50	Bandhan Bank Limited	CRISIL A/Stable
Term Loan	50	Canara Bank	CRISIL A/Stable
Term Loan	50	Kotak Mahindra Bank Limited	CRISIL A/Stable
Term Loan	0.86	Cholamandalam Investment and Finance Company Limited	CRISIL A/Stable
Term Loan	26.25	SBM Bank (India) Limited	CRISIL A/Stable
Term Loan	55.16	Hero FinCorp Limited	CRISIL A/Stable
Term Loan	59.79	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A/Stable
Term Loan	94.63	YES Bank Limited	CRISIL A/Stable
Term Loan	108	AU Small Finance Bank Limited	CRISIL A/Stable
Term Loan	105.83	ICICI Bank Limited	CRISIL A/Stable
Term Loan	189.33	IDFC FIRST Bank Limited	CRISIL A/Stable
Working Capital Demand Loan	10	Bandhan Bank Limited	CRISIL A1
Working Capital Demand Loan	25	IndusInd Bank Limited	CRISIL A1
Working Capital Demand Loan	100	Citibank N. A.	CRISIL A1
Working Capital Demand Loan	20	Capsave Finance Private Limited	CRISIL A/Stable

Criteria Details

Links to related criteria

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for rating short term debt](#)

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