India Ratings & Research
A Fitch Group Company

India Ratings Affirms Navi Finserv's NCDs at 'IND A'/Stable & CP at 'IND A1'; Off Rating Watch Negative Implications

Dec 11, 2024 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has affirmed the ratings on Navi Finserv Limited's (NFL) debt instruments while resolving the Rating Watch with Negative Implications as follows:

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; off Rating Watch with Negative Implications
Non-convertible debentures $,*	-	-	-	INR5,055.24	IND A/Stable	Affirmed; off Rating Watch with Negative Implications
Non-convertible debentures *,^	-	-	-	INR12,750 (reduced from INR13,500)	IND A/Stable	Affirmed; off Rating Watch with Negative Implications

*Details in annexure
$Includes INR428.74 million of principal protected market-linked debentures (PP-MLDs); unutilised amount of INR4,626.50 million stands fungible between NCDs and PP-MLDs
^INR5,000 million stands for public NCDs

Analytical Approach

Ind-Ra continues to take a fully consolidated view of Navi Group, which includes NFL (100% owned by Navi Technologies Limited (debt rated at 'IND A'/Rating Watch with Negative Implications; NTL), 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

Ind-Ra had placed NFL on Rating Watch with Negative Implications in view of the regulatory developments wherein the Reserve Bank of India (RBI) had restricted NFL from sanctioning/ disbursing loans effective 21 October 2024. This was due to the material supervisory concerns observed in the pricing policy of the company in terms of their weighted average lending rate (WALR) and the interest spread charged over their cost of funds, which was found to be excessive as per the regulator. The embargo was lifted by the RBI on 2 December 2024, post several rounds of interactions with the company for the rectification of deficiencies and post implementation of corrective measures.

As an outcome of the regulatory action, the company has moderated its WALR and capped the interest rate on personal loans at 26% (from 35% previously) and at 13% for home loans (from 14% previously). Ind-Ra opines that the reduction in WALR may impact NFL's interest margins and profitability; however, it is expected to be countered by a reduction in the expected credit loss provisions by improving the quality of loan origination, lowering the technology sharing costs between NTL and NFL and through portfolio diversification over the medium term through expansion into a secured loan product, as per management guidance. The ability of the company to grow profitably amid the tightened regulations while keeping its operational and credit costs under control will be a key monitorable.

The rating affirmation and resolution of rating watch reflect NFL's addressing the regulatory observations and resumption of the disbursements while the company continues to maintain collection efficiencies on the existing portfolio. The affirmation also factors in the adequate availability of capital at the Navi group which is majorly earmarked for the lending business, the group's established underwriting and risk management systems with a reasonable technology-based model driving business functions, and NFL's demonstrated fund-raising ability and diversified borrowings profile.

List of Key Rating Drivers

Strengths

- Adequate capitalisation at group level
- Established underwriting systems support tech-based lending
- Diversified funding profile

Weaknesses

- Franchisee growth may be impacted amid tightened regulations
- Profitability may be impacted due to a moderation in portfolio yields
- 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 30 September 2024, NTL had infused total equity of INR27.39 billion into the group companies, of which INR20.56 billion was in NFL, INR4.7 billion in the insurance vertical and INR1.87 billion in the asset management company. Ind-Ra does not expect the group entities, other than NFL, 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 INR35.87 billion in 1HFY25 (FY24: INR35.60 billion; FY23: INR31.70 billion); gearing stood at 2.2x (1.8x; 3.0x). The consolidated borrowings at NFL stood at INR78.45 billion (March 2024: INR64.58 billion), of which borrowings for NFL stood at INR75.66 billion (INR64.44 billion). NFL's tangible net worth stood at INR29.79 billion as of 1HFY25 (FY24: INR28.70 billion; FY23: INR21.97 billion). NFL's leverage including tangible equity stood at 2.5x in 1HFY25 (FY24: 2.2x; FY23: 2.6x) with capital adequacy ratio of 26.11%. 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 NFL's asset under management (AUM) growth has supported its asset quality to a certain extent, the improvement is largely driven by its tightened underwriting systems, stringent loan approval rates and strengthened collections infrastructure. The asset quality has improved over the past few quarters, as indicated by the improvement in its portfolio at risk to above 90 days on a static pool basis in the disbursement cohorts across loan tenor buckets. However with the revision in the business strategy, the ability of the company to improve the origination quality for the incremental disbursements will be a key monitorable.

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 stood at 29.04% in 1HFY25 (FY24: 29.4%; FY23: 20.4%, FY22: 15.4%); however, the share of funds raised through NCD issuances reduced to 28.7% as of March 2024 and stood at 30.3% as of September 2024 (March 2023: 42.1%; March 2022: 68.1%), as the company reduced its dependence on debt from the parent company. As of 30 September 2024, NFL's on-book funding profile comprised bank borrowings (29.4%), borrowings from non-banking financial institutions (NBFC)/financial institutions (9.2%), NCDs (30.3%), securitisation (24.8%), commercial paper (CP; 6.5%) and subordinated debt (0.1%). The company raised incremental debt of INR34.21 billion in 1HFY25, where the average cost of borrowing stood at 11.4%. NFL has a diverse lender base, comprising funding relationships with 28 commercial banks and 29 NBFCs and financial institutions apart from other corporate houses and high net-worth individuals who have invested in its capital market issuances. As per the management guidance, the borrowing cost for NFL is expected to moderate over the medium term with better origination quality and reduction in the underlying credit risk leading to reduced risk premium on borrowings. The ability of the company to raise incremental funding at competitive rates will be monitorable.

Franchisee Growth may be Impacted amid Tightened Regulations: The regulatory embargo on incremental sanctions and disbursement of loans has impacted the overall AUM growth for NFL. The existing loan portfolio had rundown to INR123.45 billion as of October 2024 from INR126.62 billion as of September 2024. Amid the tightened regulatory measures and prevailing market conditions in the unsecured personal loan segment, Ind-Ra expects the average monthly disbursements to moderate for December 2024-March 2025; as per management guidance, the AUM as of March 2025 will remain at similar levels of March 2024 with incremental growth expected in FY26. The growth in FY26 will be fuelled by a combination of on-book AUM growth as well as an increase in the share of the off-book portfolio from the current levels through securitisation transactions and co-lending. The ability of the company to scale its loan book profitably while keeping credit costs and operating expenses under control will remain a key monitorable.

The group has also forayed into the unified payments interface (UPI) business, which gained traction during 1HFY25 and has thereby attracted 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 a reasonable 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. However, with the moderation in the WALR for the incremental disbursements going forward, NFL will have to refine its underwriting practices and further tighten the customer selection process to onboard customers with a reasonable credit history which may help to keep credit costs under control.

Profitability may be impacted due to moderation in portfolio yields: The regulatory action has impacted the overall lending business of the group due to the embargo on disbursements in the interim period impacting the group's profitability. The company has reduced the lending rates for the incremental disbursements in line with the RBI's guidance which would impact its net interest margins and profitability. Also, with the introduction of a secured product, the trajectory of operating expenses to AUM growth will be closely monitored. As per management guidance, the reduction in lending rates will be countered to some extent through lower credit costs, improved operating efficiencies and diversification into a secured loan product in the medium term. The ability to keep the credit costs and operating expenses under control on a sustained basis would remain crucial from a rating perspective. On a standalone basis, NFL reported a profit after tax of INR1.29 billion in 1HFY25 (profit before tax; excluding one-time gains of INR1.58 billion in FY24). With the expected moderation in the loan book, higher credit costs will further impact the profitability for FY25.

The Navi group, on a consolidated basis, reported a profit after tax of INR0.23 billion in 1HFY25 (loss, excluding one-time gains of INR2.16 billion in FY24). With the moderation in WALR for the lending business and reduction in technology cost sharing between NFL and NTL, the consolidated profitability for NTL isalso likely to be impacted for FY25. The general insurance business housed under Navi General Insurance, reported a profit of INR0.51 billion in FY24 (FY23: INR0.22 billion).

Vulnerability of Asset Quality in Lending Business, Given Unsecured Nature of Loans: As of September 2024, about 89% of NFL's AUM comprised unsecured personal loans, which remain vulnerable to slippages on account of external headwinds. NFL's 90+ days past due (dpd) had 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 past few quarters however have been performing well. NFL has substantially increased its focus on collections over the past 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 2.4% as of October 2024 (FY24: 1.8%, FY23: 1.3%) given the increase in seasoning of the portfolio. The underlying credit profile of NFL's borrowers is expected to improve due to the tightened underwriting practices and increase in share of secured portfolio, as per management guidance. The ability to maintain a healthy asset quality as the portfolio scales up will be a key monitorable.

The segment is also vulnerable to the evolving regulatory landscape for digital lenders. Given the high growth seen in the unsecured segment, the RBI'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 October 2024 with a positive cumulative mismatch in all of the tenor buckets. As on 20 November 2024, the unencumbered cash position stood at around INR14.98 billion and the total outflows including debt repayments stood at INR24.15 billion for between December 2024 and March 2025. The cash position along with monthly collections is sufficient to cover the debt obligations for the next four 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 INR5 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; a widening of the 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 following factors will individually or collectively lead to a negative rating action:

- a weakening in the business or operating performance due to changes in the business model
- lending business leverage exceeding 3.75x and consolidated leverage exceeding 3x
- significant increase in credit costs leading to dilution in the capital buffers
- dilution in the liquidity buffers

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 is a wholly owned subsidiary of the Navi group (main holding company is NTL). The AUM of the lending business stood at INR113.80 billion at end-March 2024 and INR123.44 billion at end October 2024. Sachin Bansal holds about 98% stake in NTL, which holds 100% stake in NFL.

Key Financial Indicators

Particulars (Standalone; INR billion)	1HFY25	FY24	FY23
Total tangible assets	112.62	100.57	84.49
Total tangible equity	29. 80	28.71	21.96
Net profit	1.30	6.69	1.72
Return on average assets (%)	2.43	7.2	2.7
Equity/assets (%)	26.5	28.5	26.0
Total capital ratio (%)			
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.			

Particulars (Consolidated; INR billion)	1HFY25	FY24	FY23
Total tangible assets	125.99	115.95	139.62
Total tangible equity	35.88	35.60	31.70
Net profit	0.23	3.61	0.21
Return on average assets (%)	0.4	2.8	0.2
Equity/assets (%)	28.5	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.			

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	25 October 2024	16 August 2024	18 August 2023	12 September 2022	6 May 2022	12 April 2022	17 February 2022	24 December 2021	29 October 2021	23 September 2021
PP-MLDs	Long-term	INR3000.0	-	-	WD	IND PP-MLD A/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
NCDs	Long-term	INR17,805.24	IND A/Stable	IND A/Rating Watch with Negative Implications	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
CPs	Short-term	INR10,0000	IND A1	IND A1/Rating Watch with Negative Implications	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 debenture	Low
Non-convertible debenture (fungible between NCDs & MLDs)	Low

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/Rating Watch
NCDs	INE342T07114	18 January 2022	9.5	31 December 2024	INR350.0	IND A/Stable
NCDs	INE342T08047	6 December 2022	10.5	31 July 2025	INR350.0	IND A/Stable
NCDs	INE342T07361	29 May 2023	2	29 November 2024	INR750.0	WD/ Paid in Full
NCDs	INE342T07429	11 December 2023	10.25	31 December 2026	INR1,000.0	IND A/Stable
NCDs	INE342T07486	4 June 2024	10.25	15 September 2025	INR950.0	IND A/Stable
NCDs	INE342T07494	18 June 2024	10.5	18 June 2027	INR750.0	IND A/Stable
NCDs	INE342T07502	22 July 2024	9.25	22 January 2026	INR500.0	IND A/Stable
NCD (Utilised Limits)					**INR3,900.0**	IND A/Stable
Unutilised					**INR8,476.50**	IND A/Stable
Total NCD Limits					**INR12,376.50**	
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 July 2023	9.75	18 January 2025	INR1929.19	IND A/Stable
Public NCDs	INE342T07379	18 July 2023	10.25	18 October 2025	INR972.50	IND A/Stable
Public NCDs	INE342T07395	18 July 2023	10.75	18 October 2025	INR731.78	IND A/Stable
Public NCDs	INE342T07387	18 July 2023	10.50	18 July 2026	INR674.97	IND A/Stable
Public NCDs	INE342T07403	18 July 2023	11.02	18 July 2026	INR507.86	IND A/Stable
Public NCDs (utilised)					**INR4,816.30**	IND A/Stable
Public NCDs (un-utilised)					**INR183.70**	IND A/Stable
Total					**INR5,000.00**	

Source: NSDL, NFL						

PP-MLDs						
Instrument Type	**ISIN**	**Date of Issuance**	**Coupon Rate(%)**	**Maturity Date**	**Size of Issue (million)**	**Rating/Outlook**
PP-MLD	INE342T07254	27 September 2022	INE0020210095[&]	30 January 2026	INR428.74	IND PP-MLD A/Stable
Total PP-MLDs					**INR428.74**	
Total					**INR428.74**	

Source: NSDL, NFL
*Expected redemption rate is 9.25%; [&]Expected redemption rate is 8.37%

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

Policy for Placing Ratings on Rating Watch

Financial Institutions Rating Criteria

The Rating Process