CareEdge Global assigns Long Term Foreign Currency Rating of 'CareEdge B/Stable' to the proposed external commercial borrowing plan of Namdev Finvest Private Limited (NFPL)

USD 3 million external commercial borrowing	CareEdge B/Stable
USD 22 million external commercial borrowing (Proposed)	CareEdge B/Stable

CareEdge Global has assigned **'CareEdge B/Stable'** to Namdev Finvest Private Limited's (NFPL) proposed USD 25 million external commercial borrowing plan, to be issued in tranches starting at US$3 million.

Rating Rationale

The rating is primarily driven by a comfortable capitalization position, adequate profitability, and experience of the founder in the geography of operation. These credit strengths are partly mitigated by a concentrated portfolio in a specific geography, a modest though growing scale of operations, a narrow resource profile, and a low seasoning of its portfolio in an inherently susceptible asset class.

Key Rating Drivers

Strengths

Comfortable capitalisation

NFPL has a comfortable capitalisation profile with an overall capital adequacy ratio of 34.22% as of March 31, 2024. The company, to support its growth plans, expects to raise further equity in the current financial year.

NFPL raised Rs 235 crore through equity and compulsory convertible preference shares (CCPS) during FY24. This infusion, along with internal accruals, increased NFPL's tangible net worth to Rs 393 crore (46 mn* USD) as of March 31, 2024. Consequently, gearing levels reduced to 2.90x as of March 31, 2024, from 4.65x as of March 31, 2023.

CareEdge Global expects that, with its planned growth trajectory, the company will maintain a buffer of approximately 5-10% above the regulatory capitalization requirements (currently at 15%), while keeping gearing (debt to equity ratio) within the range of 3.5 to 4x over the medium term.

* 1 USD=84 Rupees

Adequate profitability

NFPL's return on assets (RoA) improved to 2.2% in FY24 from 1.6% in FY23, driven by higher net interest margins (NIMs) of 6.9% (up from 5.6% in FY23), benefiting from the recent equity raise. As a result, NFPL's profit after tax (PAT) more than doubled to Rs 27 crore in FY24, from Rs 12 crore in FY23, supported by loan book growth.

Experience of the promoter in the geography of operations

NFPL, promoted by Mr Jitendra Tanwar, has a long standing experience of operating as a non bank lender specializing in lending to micro, small, and medium enterprises (MSMEs). It also serves other segments such as two-wheelers (TW), commercial vehicles (CV), solar loans, and electric vehicles (EV). The company began its operations in the state of Rajasthan and has successfully expanded its portfolio, with a significant contribution from the state, leveraging its strong domain expertise and in-depth local knowledge.

Weaknesses

Geographical concentration with a modest though growing scale of operations

NFPL has a high geographical and product concentration with a modest scale of operations as compared to some of the other established lenders in a similar asset class. A single state (i.e. Rajasthan) accounts for over three-fourths of the portfolio while the MSME loan segment accounts for over 90% of the portfolio.

NFPL which started its business in Rajasthan, has embarked on a measured expansion strategy, extending its presence to five states in FY23 and further scaling up to eight states by FY24. As of March 31, 2024, NFPL operates across Delhi, Gujarat, Punjab, Rajasthan, Madhya Pradesh, Uttar Pradesh, Haryana, and Uttarakhand.

NFPL expects its geographical concentration to reduce albeit gradually as it needs to demonstrate its ability to profitability scale up its operations in the new geographies. However, the share of Rajasthan in the overall portfolio is unlikely to come below 50% over the next 3-4 years as Rajasthan is the home state for NFPL.

Furthermore, NFPL also faces a concentrated asset profile. As of March 31, 2024, MSME loans accounted for around 90% of the company's AUM, underscoring its strong focus on this segment. Although NFPL is gradually building a portfolio in electric vehicle (EV) financing, indicating a forward-looking approach to exploring emerging segments and diversifying its asset base over time, the product concentration with MSME loans contributing significantly to its asset base will continue.

Narrow resource profile leading to a relatively higher cost of borrowing

NFPL continues to rely significantly on non-banking financial companies (NBFCs) for its debt requirements, though this dependence has gradually reduced. As of March 31, 2024, NBFC borrowings accounted for 44% of the total debt, down from 51% as of March 31, 2023. Typically, these loans are at relatively high cost as compared to other sources of financing, and therefore, adversely impact the profitability of the company. NFPL's average borrowing cost was 11.76% for FY24.

NFPL is making efforts to optimize its borrowing profile by exploring other financing options, including international debt issuances, which are expected to be fully hedged. The pace of reduction in NBFC borrowings is likely to be gradual as a large portion of current borrowings are from NBFCs.

Modest seasoning of the portfolio

NFPL has been rapidly expanding its scale of operations, with the company achieving an Assets under management (AUM) of Rs 1,181 crore as of March 31, 2024. This significant expansion reflects the company's focus on scaling its loan book and increasing its presence in its target segments. However, a large portion of the loans in NFPL's portfolio have originated in the past two to three years. As a result, these loans have relatively limited seasoning, implying that the portfolio's performance over a full credit cycle is yet to be fully tested. This remains a key monitorable as the company continues to grow at a rapid pace.

NFPL has moderate asset quality parameters notwithstanding marginal deterioration in asset quality during H1FY25. NFPL reported a GNPA of 1.5% as of September 30, 2024, as compared to 1.07% as of March 31, 2024, and 1.17% as of March 31, 2023. Extreme heatwave conditions in NFPL's core markets, Rajasthan and Gujarat, and other local factors impacted customer businesses, slowing collections and increasing slippage in the first half of the current financial year.

NFPL's borrower segment/asset class has been seeing asset quality pressure for the past few months. These macroeconomic factors, along with lower growth in its portfolio, may result in deterioration in NFPL's asset quality parameters from FY24 levels.

Furthermore, the majority of NFPL AUM has been added in the last two years and therefore the reported GNPA numbers may not reflect the seasoning impact. As a result, CareEdge Global has also evaluated GNPA's calculated on a two-year lagged basis. NFPL's 2-year lagged GNPA was 3.81% as on March 31, 2024.

Liquidity

NFPL's liquidity is adequate, reporting no negative cumulative mismatches as per the asset-liability mismatch statement as of Sep 30, 2024. The company has a liquidity of around Rs 330 crore in the form of cash and bank balance, fixed deposits without lien mark, and liquid investment as of September 30, 2024. This is adequate to meet the upcoming near-term debt maturities of around 3 months.

Outlook: Stable

The stable rating outlook reflects CareEdge Global's expectation that NFPL will maintain a comfortable profitability and capitalisation profile over the medium term. Furthermore, NFPL's growth will continue to be supported by timely equity infusions by promoters and other major investors.

Rating Sensitivities

Upward factors

- Any revision in the rating of India (rated, 'CareEdge BBB+/Stable Unsolicited') by CareEdge Global
- Significant improvement in product and geographical diversification
- Significant growth in AUM with the sustenance of asset quality and profitability

Downward factors

- Revision in the rating on India's credit rating by CareEdge Global
- Deterioration in profitability with respect to return on total assets (RoA) declining below 1.50%.
- Deterioration in gearing level exceeding 4.50x on a sustained basis
- Significant deterioration in asset quality

Environmental, Social and Governance (ESG) considerations

CareEdge Global observes that NFPL primarily engages in lending to businesses operating in semi-urban actively promoting sustainable practices among its borrowers. This includes encouraging the efficient use of natural resources such as water and raw materials, alongside fostering initiatives for recycling and reuse, aligning with broader environmental sustainability goals.

From a social perspective, the company addresses critical social risks by focusing on low-ticket MSME lending. This approach enhances credit accessibility for underserved segments, including women entrepreneurs and businesses in rural areas, thereby contributing to financial inclusion and socioeconomic development.

On the governance front, while the company demonstrates a reasonable commitment to governance practices, further improvements in board structure and practices could enhance resilience and stakeholder confidence.

About the company

NFPL is a nonbank lender licenced by the Reserve Bank of India, the regulator for the financial sector in India, as a non-deposit-taking, Systematically Important NBFC (NBFC-ND-SI) under the category Investment and Credit Company.

The company, with its Assets Under Management (AUM) exceeding Rs 1,000 crore, has recently been reclassified into the Middle Layer as per the Reserve Bank of India (RBI) scale-based regulation framework for NBFCs. This transition subjects the company to stricter regulatory requirements, including enhanced governance standards, higher capital adequacy norms, and more comprehensive risk management practices, aimed at ensuring stability and resilience in its operations.

NFPL, incorporated on April 11, 1997, was taken over by Mr Jitendra Tanwar in 2013 and since then it forayed into financing of vehicle loans and later started loans against properties (LAP) in 2015. However, the company now primarily focuses on lending to micro, small, and medium enterprises (MSMEs) while also catering to segments such as two-wheelers (TW), commercial vehicles (CV), solar loans, and electric vehicles (EV). The EV segment has also gained traction, with its contribution rising to 4% of AUM as of March 31, 2024, compared to 1% a year earlier.

NFPL's MSME loans are secured against property, with an average ticket size of Rs 5–7 lakh, a tenure of around seven years, and an interest rate ranging between 18–24%. EV financing is offered with vehicle hypothecation, an average ticket size of Rs 1–2 lakh, a two-year tenure, and similar interest rates of 18–24%. The two-wheeler (TW) segment involves loans secured by vehicle hypothecation, with ticket sizes ranging from Rs 25,000 to Rs 85,000, a two-year tenure, and an interest rate of 19–25%.

The company has also diversified into lending to NBFCs, targeting higher ticket sizes exceeding Rs 50 lakh. This portfolio is prudently capped at 15% of net worth or Rs 60 crore, whichever is lower.

Solicitation Status

These ratings are solicited. The management has provided information and meetings to the CareEdge Global analytical team for the rating.

Rating History

Instrument	Type	Rating	Date
External commercial borrowings	Long Term Foreign Currency (Solicited)	CareEdge B/Stable	November 27, 2024

Criteria Applied

CareEdge Global's Rating Methodology for Financial Institutions

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