

Digital impact

NeoGrowth changes the way SMEs access to the credit market

Identifying a business idea and making it profitable has been the key to success for the Khaitan brothers – Piyush (age: 60 years) and Dhruv (age: 67 years) – who are serial entrepreneurs. They have founded a number of companies and built and operated them to a certain level, before exiting. Prior to this, Piyush was MD, Venture Infotek, a company founded by the Khaitans and run by them until divestment in 2010. They had also floated DEL, a secure card personalisation bureau, which merged into Venture Infotek later. Piyush has also worked closely with Card Networks, RBI & IBA in framing policies and giving direction to the card payments industry in India. He was founder-chairman, 'ePayments Focus Group' of the Smart Card Forum of India (SCAFI) from 2000 through 2005.

Piyush is now MD and Dhruv, vice-chairman, NeoGrowth Credit Pvt Ltd (NCPL), their new venture – a company that lends on the basis of the underwriting of digital payments data of the borrowers. "NeoGrowth is a technology and data-driven fintech firm that provides loans to retailers against the future card sales happening at merchants outlet," is how Piyush describes his new venture.

"We have created a business model, which operates at the convergence of three ecosystems – lending, urban retail & digital payments – on a platform of technology and innovation," says Dhruv. "From the beginning, we have built deep expertise in each of the three domains and brought them together into our model". During the last five years (it started its commercial operations in 2012-13), NeoGrowth, headquartered in Mumbai, has extended its presence to 21 major cities. Also, in this short duration, it has scaled up the disbursements from ₹9 crore (2013) to ₹1,358 crore (2018). On this, during the same period, the company started on a revenue of ₹2 crore to move north to ₹243 crore. In the current year, the Khaitans have targeted touching ₹2,500 crore in

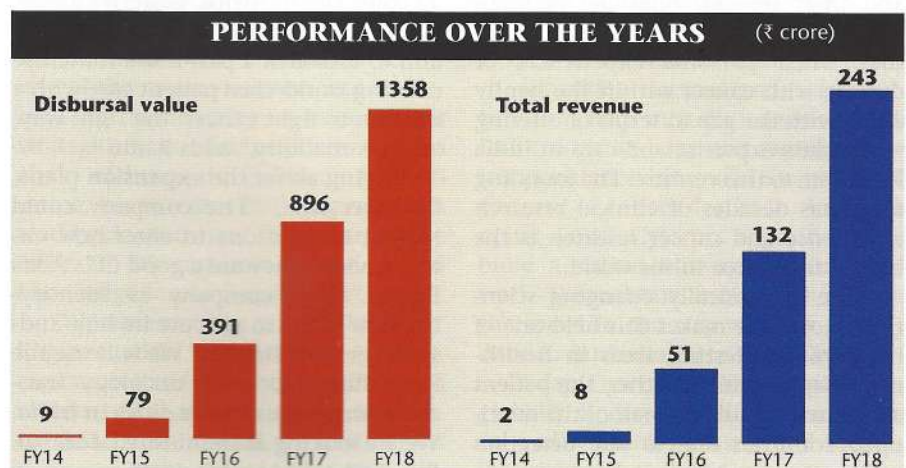
disbursements, though they are tight-lipped on the profitability front.

The Khaitans have leveraged their deep experience in technology, understanding of the retail finance sector and their strong entrepreneurial experiences to introduce the concept of 'merchant cash advance'. The main advantage of such loans to merchants is the flexibility in payments offered over a conventional loan. The daily repayment feature helps merchants plan their cash flows better, especially taking into consideration slow and off-seasons. "These loans are usually processed much quicker than a typical loan, giving merchants fast access to cash when needed," adds Piyush, taking a non-traditional route to serve the retail SME businesses, which are consumer-facing. "The main criteria for such loans are based on the underlying performance of the business, rather than the personal credit history of the merchant itself, thereby providing an alternative for these underserved businesses that typically may not qualify for traditional channel loans. They also do not have credit bureau reports, etc". Today, he has served over two dozen industry verticals, ranging from small hotels to petrol pumps, grocery stores, pharmacies, *et al.* "These are industries that do not have a cash-flow-based model and cannot predict business over the next one year or so".

NCPL has just one signature product called 'NeoCash' that it offers to various merchants across India. The company offers small ticket loans from ₹5 lakh to ₹1.5 crore, with an average tenure of 14 months. "In this, we cater to the underserved market by adopting an approach and validating the creditworthiness of the business by looking at current business performance and stability. It helps the small business guys to grow their business by providing much needed financial help in a hassle free manner," explains Piyush, who has been backed by investors like Omidyar Network, Aspada Investment Co, Khosla Impact, Accion Frontier Inclusion Fund (Mauritius) and IIFL Seed Ventures Fund I and LeapGrog Investments.

Innovative business model

So far, in six rounds of funding, NCPL has raised ₹500 crore through equity and ₹1,050 crore via the debt route. "Our equity has been contributed by the promoters as well as impact funds like Omidyar Network, Aspada, Khosla Impact Fund, Quona Capital (Accion Frontier Inclusion Fund) and private equity funds like IIFL Seed Ventures and LeapFrog Investments," explains Piyush. "Debt has come from a variety of sources. International debt is in the form of non-convertible debentures, subscribed by Blue Orchard, Symbiotics and ResponsAbility, which are amongst global leaders in impact lending. We have also raised debt from Indian banks and large NBFCs," he adds. An in-house technology platform meets the requirements of NeoGrowth's loan products, while it relies on its proprietary technology platform, which is analytics-driven,



to underwrite a 'tech & touch' model to serve the SME market in India.

"Financial service is an important focus area for Omidyar Network globally as also in India, with nearly \$300 million invested globally in this sector by us," explains Smita Aggarwal, director, investments, Omidyar Network. "Our overarching theme is to back ideas and entrepreneurs that use technology driven disruptive innovation to improve access and usage of financial services by all". Omidyar was the first investor in NeoGrowth in 2013 and, by participating in the multiple rounds of fund raising gone through by NCPL, it has more than 10 per cent stake in the company now.

"One of the key reasons for this gap is the credit assessment of this segment, which does not lend itself well to income document-based credit assessments, which traditionally lenders are used to," reasons Aggarwal. "Traditional lenders have, therefore, primarily restricted themselves to lend to MSME against hard collateral (property) to fund capital expenditure. However, an important requirement of this sector is working capital to fund their growth. Absence of quick access to working capital often pushes them to an expensive, highly-fragmented, informal credit market when they need funds to operate or grow their business. Our interest in NeoGrowth was sparked by its innovative business model to tackle this gap by pioneering the credit assessment and collection model based on digital sales (credit card, debit card) by the retailer. It's in line with our thesis".

Borrowers' tales

Incidentally, many of NCPL's borrowers have taken their first ever loan from it and that's a reflection of the business model that reaches the underserved. Listen to what a cross section of borrowers has to say. "NeoGrowth provides sweet, tiny and perfect loans for the business," observes Jayanti Kathale, who changed her profession at the peak of her career with Infosys and embraced entrepreneurship, by converting her passion for food to run Purna Bramha, a franchise of authentic Maharashtrian food restaurants. They have their main restaurant in Bengaluru and are planning to spread their business across other states in India. In

her need for working capital to expand, Kathale had approached NeoGrowth. "Its timely funding proved beneficial for Purna Bramha. When I was in a real need of financial assistance, the company had come through," she adds. Her business is exclusive to women entrepreneurs and is expanding through a franchise model.

"We had a brilliant customer experience with NeoGrowth and we recommend NeoGrowth to all our friends in retail," says Zahir and Monica, who own SportXS, a chain of sport retail stores spreading across four cities – Mumbai, Pune, Chennai and Bengaluru. Essentially a sports care equipment brand in the organised equipment retail store, it has till date 10 stores, "and, as with most entrepreneurs, secured lending has become a big issue with us too. We were looking at small time lending, for working capital needs. And, after

"We estimate India to have over 30 million retailers and this segment is largely financed by the money lenders."

Samir Bhatia, founder, SMEcorner

searching on the internet, we found NeoGrowth. Its timely response and hassle-free documentation helped us to get the funds at the right time to expand the business".

"My interaction with NeoGrowth was effortless," explains Abdulmajid Mansuri of Drape Shoppe. "I never even realised that our loan has been repaid and now I am going to renew my contract with them. Working capital is important to move my dreams to reality". Drape Shoppe retails in home furnishings, upholstery, mattresses and material for customised sofas and curtains, etc, and has a clientele spanning several segments of business. "We deal with a lot of high-profile celebrities and film stars and have to invest in maintaining an up-to-date stock. We are in the business of enhancing your house, which is the biggest investment for any individual; hence, it is our duty to offer the best drapes and home furnishings", adds Mansuri, a first generation entrepreneur, who scaled up from a small

150 sq ft shop to a landmark 5,000 sq ft furnishing store in Mumbai. Most of his clients are comfortable 'using a card' and thus, when NeoGrowth offered the option of repayment via card swipe, it seemed the most logical financial solution for Drape Shoppe. "There was no hassle in terms of lengthy paper work or verifications, with its customer service team being efficient and customer-centric."

According to Vabez Sarosh Wankadia of Sams Studio, who have been providing specialised hair, beauty and nail treatment to clients in the western suburbs of Mumbai during the last five years: "As a woman entrepreneur, I was able to dream big, because NeoGrowth helped me to have a new perspective."

"We estimate India to have over 30 million retailers and this segment is largely financed by the money lenders," says Samir Bhatia, founder, SMEcorner, a company focussed on the highly underserved segment of small retailers. "We see this section as a huge opportunity, given the size of the market and the potential to lend to this segment. The credit underwriting requires a very different approach and we have built the risk and data science capabilities to address this".

SMEcorner has a hybrid model. "The bank uses physical branches and sales force to acquire customers and build relationships with them, and to understand them and their needs better, but we use technology and data science extensively to underwrite and approve loans in a short period of time".

The Indian MSME is an underserved market. There are 45-50 million MSMEs, with an estimated credit gap of over ₹25 lakh crore – enough appetite for more companies like NeoGrowth. "We are excited that NeoGrowth has set the ball rolling for others to replicate and follow," sums up Aggarwal, who could look at a trade sale or an exit through an IPO, which the Khaitans plan to go into in 4-5 years down the road, at a time when NeoGrowth has a loan book size of ₹6,000 crore plus.

With the government's thrust on digital payments in India, it makes this underserved market an even bigger opportunity, as the number of business owners opting for digital payments acceptance is growing rapidly.

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