

January 10, 2022

## Berar Finance Limited: Provisional [ICRA]BBB+(SO) assigned to PTCs backed by a pool of two-wheeler loan receivables issued by Blacksoil Trust

### Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Blacksoil Trust	PTC Series A	14.61	Provisional [ICRA]BBB+(SO); Assigned

\*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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### Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTC) Series A issued under a securitisation transaction originated by Berar Finance Limited (BFL; rated [ICRA]BBB (Stable)). The PTCs are backed by a pool of Rs. 17.81-crore two-wheeler (2W) loan receivables (underlying pool principal of Rs. 15.06 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, BFL's track record in the 2W loan business and the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 9.00% of the pool principal to be provided by BFL, (ii) subordinated equity tranche of 3.00% of the pool principal and (iii) subordination of the entire excess interest spread (EIS) in the structure. The rating is also based on the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of EIS, subordination/equity tranche and cash collateral
- Absence of overdue contracts as on pool cut-off date

#### Credit challenges

- High geographical concentration of the contracts in the pool at the state level
- High share of contracts with loan-to-value (LTV) greater than 70%
- Pool's performance will remain exposed to any fresh disruptions that may arise the Covid-19 pandemic

### Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The underlying loans follow a monthly payment schedule. The monthly cash flow schedule comprises the promised interest payment to PTC Series A at the predetermined interest rate on the principal outstanding and the principal repayment. A principal amount equal to 97% of the billed pool principal for the month is promised to PTC Series A on each payout date, while 3% of the billed pool principal will be paid to PTC Series A on an expected basis. The expected principal (3% of billed pool principal) to be paid every

month is promised only on the final maturity date. The residual amount (after meeting the promised and expected payouts to the PTCs, prepayments and top up required in the CC, if any) will be passed on to the originator every month.

The first line of support for PTC Series A in the transaction is in the form of a subordinated equity tranche of 3.00% of the pool principal. Further credit support is available in the form of the EIS and a CC of 9.00% of the initial pool principal. In the event of a shortfall in meeting the promised PTC payouts (interest and 97% of billed pool principal) during any month, the Trustee will utilise the CC to meet the shortfall.

The pool consists of 2W loans and has a moderate seasoning profile, with a weighted average seasoning of 6.2 months. All the contracts in the pool are current as on the cut-off date. The pool has high geographical concentration with the top 3 states (Maharashtra, Chhattisgarh and Telangana) accounting for 87.6% of the pool. Further, the share of contracts in the pool with LTV of more than 70% is high at 75.3%. The pool's performance will remain exposed to any fresh disruptions that may arise due to the pandemic.

**Performance of past rated pools:** ICRA has rated two PTC transactions of BFL in the past. Both transactions have matured. The performance of both transactions was satisfactory and had nil CC utilisation.

## Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after considering the past performance of the originator's portfolio and the rated pools, as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 5.0-6.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 6.0-9.0% per annum.

## Liquidity position: Adequate

The cash flow promised to the PTC investor on each payout date is 97% of the monthly billed pool principal, along with the interest on the PTC outstanding at the predetermined yield. Further, 3% of the billed pool principal will be paid to the PTC investor, on an expected basis, monthly. The cash flows from the pool and the available CE are likely to be adequate to meet the payouts to the PTC Series A investors. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the promised PTC payouts for approximately four months.

## Rating sensitivities

**Positive factors** - Sustained strong collection performance of the underlying pool contracts leading to lower than expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancements.

**Negative factors** – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher than expected delinquency levels and CE utilization levels

## Analytical approach

The rating action is based on the analysis of the performance of BFL’s portfolio till September 2021, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	
Applicable Rating Methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

## Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Know your customer (KYC) Chartered Accountant’s certificate
6. Any other documents executed for the transaction

## Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

## Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA’s Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## About the company

Berar Finance Limited (BFL) is a Nagpur-based public, unlisted, deposit-taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). The company is promoted by Mr. M. G. Jawanjar and was incorporated in 1990. BFL primarily finances 2Ws. It also provides used car loans, commercial vehicle loans, agricultural equipment loans and personal loans.

While its operations are concentrated in Maharashtra, over the years, BFL has expanded to five other states, i.e., Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka. As on September 30, 2021, the company’s loan book was Rs. 716 crore. It reported a profit after tax (PAT) of Rs. 9 crore in H1 FY2022 (provisional) on an operating income (OI) base of Rs. 38 crore vis-à-vis a PAT of Rs. 15.3 crore on OI of Rs. 67 crore in FY2021. As on September 30, 2021, the company’s total asset base stood at Rs. 857 crore, with a gearing of 4.40 times.

### Key financial indicators (audited)

BFL	FY2020	FY2021	H1 FY2022 *
Total income (Rs. crore)	105	135	81
Profit after tax (Rs. crore)	14.6	15.3	9
Assets under management (AUM; Rs. crore)	471	685	716
Gross NPA (%)	2.57%	2.46%	4.25%
Net NPA (%)	2.31%	1.69%	2.97%

Source: Company, ICRA Research; \* Provisional numbers

Note: All calculations and ratios are as per ICRA Research

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1 Blacksoil Trust	PTC Series A	14.61	14.61	January 10, 2022 Provisional [ICRA]BBB+(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)*	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Blacksoil Trust	PTC Series A	January 2022	8.75%	June 2024	14.61	Provisional [ICRA]BBB+(SO)

Source: Company; \*Per annum payable monthly

### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Rachit Mehta**

+91 22 22 6114 3423

[rachit.mehta@icraindia.com](mailto:rachit.mehta@icraindia.com)

**Vishal Oza**

+91 22 6114 3465

[vishal.oza@icraindia.com](mailto:vishal.oza@icraindia.com)

**Mithil Thakkar**

+91 22 61143432

[mithil.thakkar@icraindia.com](mailto:mithil.thakkar@icraindia.com)

**Himanshi Doshi**

+91 22 61143410

[himanshi.doshi@icraindia.com](mailto:himanshi.doshi@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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