

April 12, 2022

Berar Finance Limited: Rating confirmed as final for PTCs backed by two-wheeler loan receivables

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Blacksoil Trust	PTC Series A	14.61	[ICRA]BBB+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In January 2022, ICRA had assigned Provisional [ICRA]BBB+(SO) rating to pass-through certificate (PTCs) Series A¹ issued by Blacksoil Trust. The PTCs are backed by loan receivables of a Rs. 17.81 crore pool (underlying pool principal of Rs. 15.06 crore) of two-wheeler loan contracts originated by Berar Finance Limited (BFL rated, [ICRA]BBB(Stable)). Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool performance post March 2022 payout is shown in the table below:

Parameter	Blacksoil Trust
Months post securitisation	3
Pool amortisation	15.40%
PTC amortisation	15.89%
Cumulative prepayment rate %	1.14%
Cumulative collection efficiency	90.90%
Loss cum 0+ dpd	9.35%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

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

¹ PTC Series A is referred as Senior Tranche

Credit challenges

- High geographical concentration of the contracts in the initial pool at the state level
- High share of contracts with loan-to-value (LTV) greater than 70% as on cut-off date
- 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 as on cut off date. 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 initial pool principal. Further, the share of contracts in the pool with LTV of more than 70% is high at 75.3% as on cut off date. 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 trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Berar Finance Limited (BFL) is a Nagpur-based public, unlisted, deposit-taking NBFC registered with the 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, agriculture equipment loans and personal loans.

While its operations are concentrated in Maharashtra, BFL has, over the years has expanded to five other states, i.e. Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka. As on December 30, 2021, the company's loan book was Rs. 832 crore. In 9M FY2022 (provisional), BFL reported a PAT of Rs. 14.5 crore on operating income of Rs. 60 crore vis-à-vis a PAT of Rs. 15 crore and operating income of Rs. 67 crore in FY2021. As on December 31, 2021, the company's total asset base was Rs. 955 crore and its gearing was 4.83 times.

Key financial indicators

BFL	FY2020	FY2021	9M FY2022*
Total income (Rs. crore)	105	135	125
Profit after tax (Rs. crore)	14.6	15.3	14.5
Total assets (Rs. crore)	556	891	955
Gross NPA (%)	2.6%	2.5%	4.3%
Net NPA (%)	2.3%	1.7%	3.3%

*Source: Company, ICRA Research; Amount in Rs. Crore; *provisional numbers*

Note: All calculations and ratios are as per ICRA Research

Total assets and net worth exclude revaluation reserves

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust	Current Rating (FY2023)			Chronology of Rating History for the past 3 years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					April 12, 2022	Jan 10, 2022	-	-
1	Blacksoil Trust	PTC Series A	14.61	14.61	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Moderately Complex

* Backed by credit enhancement

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

Annexure-1: Instrument details

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

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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.

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