

September 01, 2022

Ugro Capital Limited: Provisional [ICRA]AA(SO) assigned to PTC Series A1 backed by unsecured business loan receivables issued by Eternals August 2022

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Eternals August 2022	PTC Series A1	21.81	Provisional [ICRA]AA(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
---	--

Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Ugro Capital Limited (Ugro). The PTCs are backed by a pool of Rs. 24.23 crore unsecured business loan receivables (underlying pool principal of Rs. 30.01 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement available in the form of (i) a cash collateral (CC) of 10.0% of the pool principal to be provided by the originator, (ii) over-collateralisation of 10.0% of the pool principal for PTC Series A1, and (iii) subordination of excess interest spread (EIS) of 15.04% of the pool principal for PTC Series A1, as well as 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 and cash collateral
- No overdue contracts in the pool as on the cut-off date
- All contracts in the pool have a CIBIL score greater than 700

Credit challenges

- High geographical concentration with top three states accounting for ~50% of the pool
- Limited vintage observed since majority of the book building has happened in the last two years
- Pool performance to remain exposed to any disruptions that may arise due to the Covid-19 pandemic

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation (i.e. subordination) of 10.0% of the pool principal. Further credit support is available in the form of an EIS of 15.04% and a CC of 10.0% of the initial pool principal (i.e. Rs. 2.42 crore) to be provided by Ugro in the transaction.

As per the transaction structure, the promised cash flow schedule for PTC Series A1 on a monthly basis will comprise interest (at the pre-determined yield) on the O/S PTC principal on each pay-out date and the entire principal on the final maturity date. The final maturity date is February 20, 2025.

On each payout date, after meeting the promised PTC Series A1 interest Payouts, all excess cash flow to the extent of principal billed, will be paid out to meet the expected PTC Series A1 principal pay-out. All prepayment amounts would be passed on to PTC Series A1 (till the PTC Series A1 principal is not fully amortised) every month and its future pay-outs revised accordingly. The EIS available after meeting the promised and scheduled payments will be utilised for payment of PTC Series A1 principal.

There are no overdues in the pool as on the cut-off date. The pre-securitisation amortisation is moderate at 18.75% as on the cut-off date. The pool has very high geographical concentration with the top three states contributing ~50% of the pool principal amount. The pool consists of loans with a moderate weighted average seasoning of ~8 months and nil share of overdue contracts as on the pool cut-off date. Further, all contracts in the pool have a CIBIL score of greater than 700. ICRA notes that the performance of the pool would remain exposed to any fresh disruptions that may be caused by the pandemic.

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 contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.75-5.75%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0-18.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised pay-outs to the PTC Series A1 investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%), on a sustained basis, leading to the build-up of credit enhancement cover for the remaining pay-outs.

Negative factors – Pressure on the rating could emerge on the sustained weak collection performance (monthly collection efficiency <90%) of the underlying pool leading to higher-than-expected delinquency levels and CE utilisation level.

Analytical approach

The rating action is based on the analysis of the performance of Ugro’s UBL portfolio till June 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenor of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
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 execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. CA certificate for KYC due diligence
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 ratings, the provisional rating will be withdrawn, in accordance with ICRA’s Policy on Provisional Ratings available at www.icra.in.

About the company

Ugro Capital Limited (Ugro), is a specialised small business lending platform registered as a systemically important non-deposit taking NBFC. The company was incorporated in 1993, as the erstwhile Chokhani Securities Ltd, and pursuant to a change in the management in 2018, it was renamed as Ugro Capital Limited. The Company commenced disbursements in Jan-19 and has an asset under management (AUM) of Rs 3,618 crore as of Jun-22. The company has been listed on the BSE since 1995, with a demonstrated track record of profitability. It is currently present in 26 states and has 92 branches.

Key financial indicators

	FY2021	FY2022	Q1 FY 2023
Net worth (Rs. crore)	952	966	975
Profit after tax (Rs. crore)	28.7	14.55	7.34
Assets under management (Rs. crore)	1,317	2,969	3,618
Gross NPA (%)	2.7%	2.30%	2.13%
Net NPA (%)	1.7%	1.70%	1.57%

Source: Company & 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 (FY2023)				Chronology of Rating History for the past 3 years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					September 01, 2022	-	-	-	
1	Eternals August 2022	PTC Series A1	21.81	21.81	Provisional [ICRA]AA(SO)	-	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	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

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Eternals August 2022	PTC Series A1	August 2022	10.60%	February 2025	21.81	Provisional [ICRA]AA(SO)

* Scheduled maturity date at transaction initiation; may change on account of prepayments

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Samriddhi Chowdhary

+91 22 6114 3400

samriddhi.chowdhary@icraindia.com

Sohil Mehta

+91 22 6114 3449

sohil.mehta@icraindia.com

Alwin Thankachan

+91 22 6114 3411

alwin.thankachan@icraindia.com

Palak Bhatt

+91 22 6114 3456

palak.bhatt@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

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

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

ICRA Limited



Registered Office

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

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.