

October 06, 2022

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

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Lotus Sept 2022	PTC Series A1	34.31	Provisional [ICRA]AA-(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of 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 (PTCs) issued under a securitisation transaction originated by Ugro Capital Limited (Ugro). The PTCs are backed by a pool of Rs. 48.84-crore unsecured micro, small and medium enterprise (MSME; also referred to as unsecured business loan or UBL) receivables (underlying pool principal of Rs. 38.99 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 7.00% of the pool principal to be provided by the originator, (ii) principal subordination of 12.00% of the pool principal for PTC Series A1 (over-collateralisation of 9.00% and equity tranche of 3.00%), and (iii) the subordination of the entire excess interest spread (EIS) in the transaction, 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 CC
- No overdue contracts in the pool as on the cut-off date
- 95% of the contracts in the pool has a CIBIL score of more than 700

Credit challenges

- High geographical concentration with top 3 states accounting for ~55% of the pool
- Limited seasoning of the portfolio, given the significant scale-up of operations in the last two years
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; performance of the pool could remain exposed to macro-economic shocks/business disruptions, if any

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. 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 (February 17, 2025). On each payout date, after meeting the promised PTC Series A1 interest payouts, all excess cash flow to the extent of the principal billed, will be paid out to meet the

expected PTC Series A1 principal payout. All prepayment amounts would be passed on to PTC Series A1 (till the PTC Series A1 principal is not fully amortised) every month and future payouts will be revised accordingly. The balance cash flows, after making the promised and expected payments, would be passed on to the residual beneficiary.

The first line of support for PTC Series A1 in the transaction is in the form of principal subordination of 12.00% (which includes over-collateralisation of 9% and an equity tranche of 3%) of the pool principal. Further credit support is available in the form of an EIS of 14.06%. A CC of 7.00% of the initial pool principal (i.e. Rs. 2.73 crore), to be provided by Ugro, would act as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

There are no overdues in the pool as on the cut-off date. The pre-securitisation amortisation is moderate at 15.25% as on the cut-off date. The pool has very high geographical concentration with the top 3 states accounting for ~55% of the pool principal amount. The pool consists of loans with a moderate weighted average seasoning of ~7 months. The pool remains exposed to the inherent credit risk associated with the underlying asset class, namely UBLs. ICRA notes that nearly 95% of the contracts in the pool have a CIBIL score of more than 700, with no contracts overdue as of the pool cut-off date. Furthermore, none of the contracts has been overdue since origination {i.e. peak delinquency of 0+ days past due (dpd)}, which provides comfort. ICRA notes that the performance of the pool would remain exposed to any macro-economic shocks/business disruptions.

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 4.50-5.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 4.8-18.0% per annum (with an average of 12.0%).

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 payouts 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 payouts.

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 credit enhancement utilisation level.

Analytical approach

The rating action is based on the analysis of the performance of Ugro's unsecured MSME or UBL portfolio till June 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure 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 the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's (CA) certificate for know your customer (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 the rating, 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, which is registered as a systemically important non-deposit taking non-banking financial company (NBFC). It was incorporated in 1993 as the erstwhile Chokhani Securities Ltd, and was renamed Ugro Capital Limited pursuant to a change in the management in 2018. The company commenced disbursements in January 2019 and had assets under management (AUM) of Rs. 3,618 crore as of June 2022. It 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 FY2023
Net worth	952	966	975
Profit after tax	28.7	14.55	7.34
Assets under management	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; Amount in Rs. crore

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
					October 06, 2022	-	-	-
1	Lotus Sept 2022	PTC Series A1	34.31	34.31	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 I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Lotus Sept 2022	PTC Series A1	September 2022	10.35 %	February 2025	34.31	Provisional [ICRA]AA-(SO)

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

Annexure II: 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.

For more information, visit www.icra.in

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