

February 03, 2023

## Berar Finance Limited: Rating reaffirmed for PTCs issued under two-wheeler loan securitisation transaction

### Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Blacksoil Trust	PTC Series A	14.61	NA	4.53	[ICRA]BBB+(SO); Reaffirmed

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) are backed by a pool of two-wheeler loans originated by Berar Finance Limited (BFL; rated [ICRA]BBB (Stable) Issuer Not Cooperating). The rating for the transaction has been reaffirmed on account of the healthy amortisation and good performance, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency is likely to be comfortable compared to the actual collection efficiency seen in the pool.

### Pool performance summary

A summary of the performance of the pool till the December 2022 collection month (January 2023 payout month) has been tabulated below.

Parameter	Blacksoil Trust
Months post securitisation	13
Pool amortisation	65.86%
PTC amortisation – PTC Series A	68.95%
Cumulative collection efficiency <sup>1</sup>	94.91%
Loss-cum-0+ (% of initial pool principal) <sup>2</sup>	5.55%
Loss-cum-30+ (% of initial pool principal) <sup>3</sup>	2.01%
Loss-cum-90+ (% of initial pool principal) <sup>4</sup>	0.34%
Breakeven collection efficiency <sup>5</sup> – PTC Series A	59.46%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	26.36%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal) – PTC Series A	5.62%
Principal subordination (% of balance pool principal) – PTC Series A	11.79%
Cumulative prepayment rate <sup>6</sup>	5.01%

<sup>1</sup> Cumulative collections till date / Cumulative billings till date + Opening overdues

<sup>2</sup> Principal outstanding (POS) on contracts aged 0+ dpd + Overdues / Initial POS on the pool

<sup>3</sup> POS on contracts aged 30+ dpd + Overdues / Initial POS on the pool

<sup>4</sup> POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

<sup>5</sup> It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – CC available) / Balance pool cash flows

<sup>6</sup> Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal

## Key rating drivers

### Credit strengths

- High amortization of senior PTC resulting in build-up of Cash Collateral (CC), Principal subordination and Excess Interest Spread has led to high build up of credit enhancement coverage for future PTC payouts;

### Credit challenges

- Geographically concentrated pool at state level with top 3 states accounting for ~88% of the balance pool
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any

## Description of key rating drivers highlighted above

The performance of the pool is characterised by a cumulative collection efficiency of 94.91% till the January 2023 payout month, despite a dip in the monthly collections over the last few months. The loss-cum-90+ days past due (dpd) has been low at 0.34%. The pool has seen moderate prepayments with an average monthly prepayment rate of 1.84% and it has amortised by 65.86%. There has been no CC utilisation in the pool till the January 2023 payout month. Due to the high amortisation and nil CC utilisation till date, there has been CE build-up in the pool with respect to the balance pool principal. The pool would, however, be exposed to macro-economic shocks/business disruptions.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the rating at the current level in the transaction. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

**Performance of past rated pools:** ICRA has rated three PTC pools originated by BFL. Apart from the above-mentioned pool, the other two pools have matured and the ratings for the same have been withdrawn. The pools reported healthy performance with peak 90+ dpd of 1.3% and nil CC utilisation till the last payout.

## Key rating assumptions

ICRA's cash flow analysis of asset-backed securitisation (ABS) transaction 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 the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pool, 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.

## 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, every month. 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** – The rating could be upgraded if sustained strong collection performance is witnessed, leading to low delinquency levels and further build-up of the credit enhancement cover.

**Negative factors** – Pressure on the ratings could emerge on decline in monthly collection efficiency (<70%) on a sustained basis of the underlying pool contracts, leading to high delinquency levels and decreased cover for the future PTC payouts from the credit enhancements.

## Analytical approach

The rating action is based on the pool's performance till December 2022 (collection month), the present delinquency level analysis of the performance of BFL's portfolio till September 2022, the performance expected over the balance tenure of the pool and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the originator

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 two-wheelers (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 expanded to five other states, i.e. Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka. As on March 31, 2022, the company's loan book was Rs. 851 crore. In FY2022, BFL reported a profit after tax (PAT) of Rs. 17.4 crore on operating income of Rs. 85 crore vis-à-vis a PAT of Rs. 15 crore on operating income of Rs. 67 crore in FY2021. As on June 30, 2021, the company reported a PAT of Rs. 3.7 crore on operating income of Rs. 24 crore.

## Key financial indicators

	FY2020	FY2021	FY2022
	Audited	Audited	Audited
Total income	105	135	176
Profit after tax (PAT)*	14.6	15.3	17.4
AUM	471	685	851
Gross stage 3	2.6%	2.5%	2.2%
Net stage 3	1.8%	1.7%	1.4%

Source: Company, ICRA Research

Note: All calculations and ratios are as per 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

Sr. No.	Trust Name	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					February 03, 2023	April 12, 2022 <sup>^</sup>				
1	Blacksoil Trust	PTC Series A	14.61	4.53	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-	

\*Provisional rating assigned

<sup>^</sup>Provisional rating finalised

### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Blacksoil Trust	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: [Click Here](#)

**Annexure I: Instrument details**

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
<b>Blacksoil Trust</b>	PTC Series A	January 2022	8.75%	June 2024	4.53	[ICRA]BBB+(SO)

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

**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.

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

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