

March 02, 2023

Ugro Capital Limited: Provisional [ICRA]AA-(SO) assigned to Series A1 PTC backed by MSME loan receivables issued by Zoey 01 2023

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Zoey 01 2023	Series A1 PTC	16.63	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
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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 principal of Rs. 18.48 crore MSME loan (underlying pool receivable of Rs. 23.63 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 5.00% of the pool principal to be provided by the originator, (ii) Over collateral of 10.00% of the pool principal for Series A1 PTC, and (iii) entire excess interest spread (EIS) of 44.86% in the structure, 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
- Around 97% of the contracts in the pool have CIBIL score greater than 700

Credit challenges

- High geographical concentration with top three states accounting for nearly 70% of the pool
- Limited seasoning of the portfolio given the significant scale-up of operations in the last two years
- Exposed to risks inherent credit risk associated with the MSME 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 (October 25, 2032). During the tenure of Series A1 PTC, on each payout date, the collections from the pool after meeting the promised Series A1 PTC interest Payouts, will be used to make the expected principal payouts (to the extent of principal billed). This principal payout, however, is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. All prepayment amounts would be passed on to Series A1 PTC (till the Series A1 PTC principal is not fully amortised) every month

and its future payouts revised accordingly. The EIS, if any, shall flow back to the residual beneficiary (originator) on every payout date after making all the payouts to PTC Series A1.

The first line of support for Series A1 PTC in the transaction is in the form of over-collateral of 10.00% of the pool principal. Further credit support is available in the form of an EIS of 44.86% and a CC of 5.0% of the initial pool principal (i.e. Rs. 0.92 crore) to be provided by Ugro 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 low at 9.23% as on the cut-off date. The pool has high geographical concentration with the top three states contributing to ~70% of the pool principal amount. The pool remains exposed to the inherent credit risk associated with the underlying asset class, namely, MSME loans. ICRA, however, takes note of the moderate seasoning (weighted average seasoning of ~13 months) of the pool with absence of overdue contracts as on the pool cut-off date. Further, around 97% of the contracts in the pool have CIBIL score greater than 700. Furthermore, none of the contracts have been overdue since origination (i.e. peak delinquency of 0 days past due or 0+ dpd) which provides comfort. The performance of the pool, however, would remain exposed to macro-economic shocks / business disruptions, should there be any.

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 4.50-5.50%, 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 mean 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 pay-outs to the Series A1 PTC 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 MSME portfolio till December 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 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 present in 12 states/union territory and has 98 branches as of September 2022.

Key financial indicators

	FY2021	FY2022	9M FY2023
Net worth (Rs. crore)	952	966	969
Profit after tax (Rs. crore)	28.7	14.55	25.73
Assets under management (Rs. crore)	1,317	2,969	5,095
Gross NPA (%)	2.7%	2.28%	1.7%
Net NPA (%)	1.7%	1.70%	1.1%

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
					March 02, 2023	-	-	-
1	Zoey 01 2023	Series A1 PTC	16.63	16.63	Provisional [ICRA]AA-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	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-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Zoey 01 2023	Series A1 PTC	February 2023	11.50%	October 2032	16.63	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

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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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