

December 22, 2023

Ugro Capital Limited: Rating upgraded for PTCs issued under MSME loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Nov-23 Payout (Rs. crore)	Rating Action
Eternals August 2022	PTC Series A1	21.81	NA	5.75	[ICRA]AA+(SO); Upgraded from [ICRA]AA(SO)

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by a pool of micro, small & medium enterprise (MSME) loan receivables originated by Ugro Capital Limited (Ugro). The rating has been upgraded on account of the healthy amortisation of the pool, which has led to the build-up of the cash collateral (CC), principal subordination and excess interest spread cover available for the future PTC payouts in the transaction. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool.

A summary of the pool's performance after the November 2023 payout is shown in the table below.

Parameter	Eternals August 2022
Months post securitisation	15
Pool amortisation	59.04%
PTC Series A1 amortisation	76.25%
Cumulative collection efficiency ¹	96.40%
Cumulative prepayment rate ²	11.07%
Average monthly prepayment rate	0.78%
Loss-cum-30+ dpd (% of initial pool principal) ³	7.01%
Loss-cum-90+ dpd (% of initial pool principal) ⁴	4.00%
Breakeven collection efficiency ⁵ : PTC Series A1	36.15%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	24.42%
Excess interest spread (EIS) available	10.24%
Principal subordination (% of balance pool principal)	42.02%

¹ Cumulative collections / (Cumulative billings + Opening overdues at the time of securitisation)

² Principal outstanding at the time of prepayment of contracts prepaid till date/Initial pool principal

³ Unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of Initial pool principal

⁴ Unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal

⁵ (Balance cash flows payable to investor – CC available) / Balance pool cash flows

Key rating drivers

Credit strengths

- High amortisation of PTCs resulting in build-up of cash collateral (CC), principal subordination and excess interest spread (EIS) available for the balance PTC payouts
- Low delinquency build-up in the hard buckets for the pool

Credit challenges

- Pools' performance will remain exposed to macro-economic shocks/business disruptions, if any

Description of key rating drivers highlighted above

The pool's performance has been healthy with the cumulative collection efficiency exceeding 95% as of the November 2023 payout month. The delinquency in the 90+ days past due (dpd; as percentage of initial pool principal) bucket is 4.0% till the November 2023 payout month. There has been no CC utilisation in the transaction till the November 2023 payout. Healthy collections and high pool amortisation have led to significant build-up of the CE in the pool and the breakeven collection efficiency is much lower than the collection efficiency reported for the transaction. The average monthly prepayment rate for the pool is moderate at 0.78%. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the rating of the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations. The pool's performance would remain exposed to macro-economic shocks/business disruptions.

Past rated pools' performance: ICRA has rated four PTC transactions originated by Ugro. All the transactions were live as of the November 2023 payout month. The transactions have reported a cumulative collection efficiency of more than 94% with nil CC utilisation as of the November 2023 payout.

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 taking into account 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 is expected to be 4.0-5.0% and prepayments during the balance tenure of the pool is expected to be 6.0-18.0%.

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 of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of Ugro’s portfolio till September 2023, 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

About the originator

Ugro Capital Limited (Ugro) is a specialised small business lending platform registered as a systemically important non-deposit taking non-banking financial company. It was incorporated in 1993 as 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 more than Rs. 7,500 crore as of September 2023. Ugro has been listed on the BSE since 1995, with a demonstrated track record of profitability.

Ugro provides financing to the MSME sector, which is critical for India’s economic growth and employment creation, though the sector is affected by the lack of affordable, efficient, and sustainable credit availability. The company is led by an experienced management team with a combined experience of over 250 years in building financial institutions with a strong corporate governance structure. More than half of the board consists of independent directors.

Key financial indicators (audited)

Ugro Capital Limited	FY2021	FY2022	FY2023
Total income	952	966	984
PAT	28.7	14.55	39.78
Assets under management	1,317	2,932	6,081
Gross NPA	2.3%	1.9%	1.6%
Net NPA	1.4%	1.4%	0.9%

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Instrument	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
						December 22, 2023	December 02, 2022		
1	Eternals August 2022	PTC Series A1	21.81	5.75	[ICRA]AA+(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-

Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
Eternals August 2022	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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument Type	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	5.75	[ICRA]AA+(SO)

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

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.

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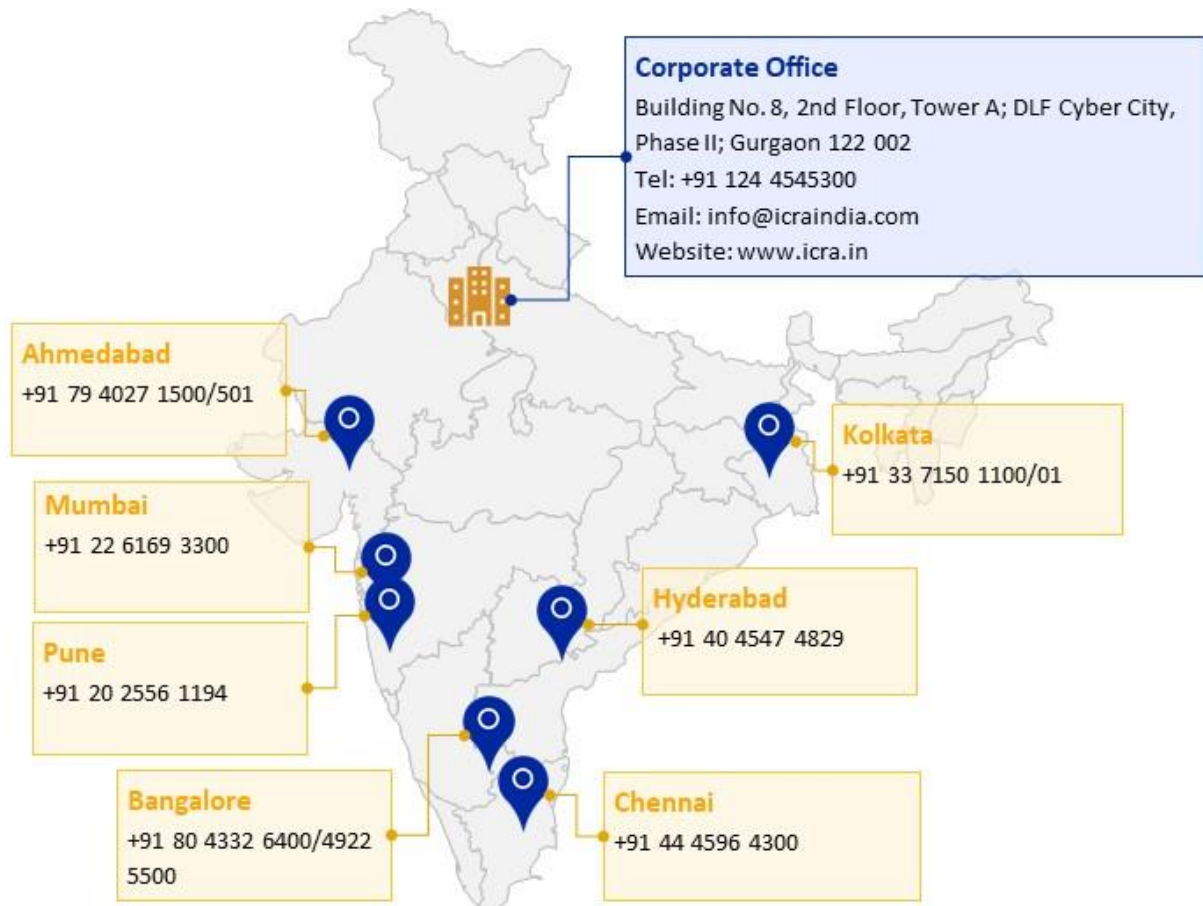
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