

March 27, 2024

Ugro Capital Limited: Ratings reaffirmed for PTCs backed by unsecured MSME loan receivables issued by Bear 08 2022

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Feb-23 Payout (Rs. crore)	Rating Action
Bear 08 2022	PTC Series A1	23.55	NA	3.79	[ICRA]A+(SO); Reaffirmed
	PTC Series A2	0.88	NA	0.88	[ICRA]A-(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by pool of unsecured MSME loan receivables originated by Ugro Capital Limited (Ugro). The ratings have been reaffirmed on account of the high amortisation of the pool, which has led to the build-up of credit enhancement (CE) cover available for the future PTC payouts for the transaction. While the delinquency levels have been higher than ICRA's base estimates, the breakeven collection efficiency remains comfortable compared to the actual collection level observed in the pool.

A summary of the pool's performance after the February 2024 payout is shown in the table below.

Parameter	Bear 08 2022
Months post securitisation	17
Pool Amortisation	68.10%
PTC Amortisation:	
PTC Series A1	83.93%
PTC Series A2	0.00%
Cumulative collection efficiency ¹	91.92%
Cumulative prepayment rate ²	20.44%
Average monthly prepayment rate	1.34%
Loss-cum-30+ dpd (% of initial pool principal) ³	14.48%
Loss-cum-90+ dpd (% of initial pool principal) ⁴	12.18%
Breakeven collection efficiency ⁵ :	
PTC Series A1	37.62%
PTC Series A2	46.20%
CC available (as % of balance pool)	1.06%
Excess interest spread (EIS) available:	
PTC Series A1	9.01%
PTC Series A2	8.68%
Principal subordination (% of balance pool principal):	
PTC Series A1	59.69%
PTC Series A2	50.29%

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 credit enhancement available for the balance PTC payouts

Credit challenges

- Higher-than-expected delinquency levels observed in the harder buckets
- Performance will remain exposed to macroeconomic shocks/ business disruptions, if any

Description of key rating drivers highlighted above

The transaction had a replenishment period of six months till the March 2023 payout month. The initial pool had unsecured business loans originated by Ugro's co-lending partners, viz. Lendingkart Finance Limited (Lendingkart) and Indifi Capital Private Limited (Indifi) while the replenishment pools comprised of unsecured business loans originated by Ugro itself. The amortisation phase began from April 2023 payout month. As of February 2024 payout month, the pool comprised of ~45% of the loan receivables originated by Ugro and ~38% and ~17% of loan receivables originated by Lendingkart and Indifi respectively.

The performance of the pool has been moderate with monthly collection efficiency declining below 90% since the July 2023 payout month. However, the cumulative collection efficiency was at ~92% as of the February 2024 payout month. The pool has reported higher-than-expected delinquencies with loss cum 30+ dpd and loss cum 90+ dpd at 14.48% and 12.18% respectively. The high delinquencies are on account of unsecured nature of asset class and presence of higher ticket size contracts performing weaker in the pool. However, the delinquencies in the soft bucket have stabilised over the past three payout months. Additionally, there has been a significant build-up of the CE in the pool resulting from high amortisation. Further, there has been no instance of CC utilisation till February 2024 payout month and the breakeven collection efficiency is considerably lower than the monthly collection efficiency levels observed for the transaction.

ICRA notes that there is a buffer of 12 months between the final maturity date (August 2025) and the expected maturity date (July 2024) to realize recoveries in case there are any shortfall in cashflows at expected maturity, which provides comfort. The pool's performance would, however, remain exposed to macro-economic shocks/business disruptions. 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.

Past rated pools' performance: ICRA has rated four PTC transactions originated by Ugro. All the transactions were live as of the February 2024 payout month. The transactions have reported a cumulative collection efficiency of more than 90% with nil CC utilisation as of the February 2024 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 pools 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 pools of contracts. After making these adjustments, the expected mean shortfall in principal collection and prepayments during the balance tenure of the pools are provided in the following table.

S. No.	Instrument Name	Expected Loss (% of initial pool principal)	Prepayment
1	Bear 08 2022	8.50-9.50%	6.0-18.0% p.a.

Liquidity position: Adequate for both series of PTCs

The liquidity for both series of PTCs is adequate after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement would be ~2.50 times the estimated loss for PTC Series A1 and ~2.00 times the estimated loss for PTC Series A2.

Rating sensitivities

Positive factors – The ratings could be upgraded on strong collection performance of the underlying pool, on a sustained basis, leading to the build-up of credit enhancement cover for the remaining payouts.

Negative factors – Pressure on the ratings could emerge on sustained weak collection performance of the underlying pool (monthly collection efficiency <90%) leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer and material increase in the delinquency levels in the pool could also exert pressure on the ratings.

Analytical approach

The rating action is based on the performance of the pool till February 2024 payout month, the present delinquency profile of the pool the performance expected over the balance tenure of the pool, and the credit enhancement cover available for 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. It provides financing to the MSME sector and had assets under management (AUM) of more than Rs. 8,300 crore as of December 2023. Ugro has been listed on the BSE since 1995.

Key financial indicators (audited)

Ugro Capital Limited	FY2022	FY2023	9M FY2024
Total income	966	984	751
PAT	14.55	39.78	87
Assets under management	2,932	6,081	8,364
Gross NPA	1.9%	1.6%	1.9%
CRAR	34.4%	20.2%	22.3%

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	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	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
						March 09, 2023	October 04, 2022		
1	Bear 08 2022	PTC Series A1	23.55	3.79	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-
		PTC Series A2	0.88	0.88	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)		

Complexity level of the rated instruments

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	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
Bear 08 2022	PTC Series A1	September 2022	8.19%	August 2025	3.79	[ICRA]A+(SO)
	PTC Series A2	September 2022	10.00%	August 2025	0.88	[ICRA]A-(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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