October 08, 2024

Berar Finance Limited: Provisional [ICRA]A+(SO) assigned to Series A1 PTC and Provisional [ICRA]BBB+(SO) assigned to Equity Tranche PTC backed by two-wheeler loan receivables issued by Trisul 09 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Trisul 09 2024	Series A1 PTC	28.69	Provisional [ICRA]A+(SO); Assigned
	Equity Tranche PTC	1.65	Provisional [ICRA]BBB+(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

Rationale

The pass-through certificates (PTCs) are backed by a pool of two-wheeler loan receivables originated by Berar Finance Limited {BFL/Originator; rated [ICRA]BBB(Stable)} with an aggregate principal outstanding of Rs. 32.98-crore (underlying pool receivables of Rs. 38.47 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available 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 ICRA's review of the documentation pertaining to the transaction

Transaction structure

As per the transaction structure, the monthly cash flow schedule for Series A1 PTC comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts to Series A1 PTC, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal. Equity Tranche PTC payouts are completely subordinated to Series A1 PTC payouts. After payment of Series A1 PTCs in full, Equity Tranche PTC will be paid expected principal on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus EIS, after meeting the expected payouts to Equity Tranche PTCs, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the redemption of Equity Tranche PTC principal. The final maturity date for both the PTCs is December 17, 2026.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal, amounting to Rs. 1.65 crore, to be provided by the Originator, (ii) subordination of 13.00% of the initial pool principal for Series A1 PTC and 8.00% of the initial pool principal for Equity Tranche PTC, and (iii) the excess interest spread (EIS) of 10.42% of the initial pool principal for Series A1 PTC.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 6,900 contracts, with top 10 contracts forming only ~0.3% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there are no overdue contracts as on the cut-off date. Further, none of the contracts in the pool have been delinquent post loan disbursement, thereby reflecting the borrowers' relatively better credit profile, which is a credit positive.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz Chhattisgarh, Madhya Pradesh and Maharashtra, contributing ~92% to the initial pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Risks associated with lending business: The performance of both the initial and the follow-on pools would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered based on the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.
For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 3.75% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 2.4% to 9.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Liquidity position:

Superior for Senior A1 PTC:

The liquidity for Series A1 PTC is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~6.00 times the estimated loss in the pool.

Strong for Equity Tranche PTC:

The liquidity for Series A1 PTC is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~4.75 times the estimated loss in the pool.

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 the credit enhancement cover for the remaining payouts.

Negative factors –The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (BFL) could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of BFL's portfolio till June 2024, 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. Auditor's certificate
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 originator

Berar Finance Limited (Berar) is a Nagpur-based public, unlisted, deposit-taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). It is promoted by Mr. M. G. Jawanjar and was incorporated in 1990. Berar primarily finances two-wheelers (2Ws). It also provides two- wheeler refinancing, personal loan and secured MSME loans.

While Its operations are concentrated in Maharashtra, Berar has, over the years expanded to five other states, i.e. Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka. As on June 30, 2024, the company's loan book was Rs. 1,157 crore and reported a PAT of Rs. 8.9 crore on total income of Rs. 69.9 crore.

Key financial indicators

Berar Finance Limited	FY2023	FY2024	Q1FY2025
	Audited	Audited	Provisional
Total income	218.0	251.8	69.9
Profit after tax	17.1	22.2	8.9
Total Assets	1,141	1,316	1,322
Gross Stage 3	4.7%	4.6%	5.1%
CRAR	26.3%	24.9%	24.6%

Source: Company data, 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	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
		Instrument	Current Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Oct 08, 2024	-	-	-
1	Trisul 09 2024	Series A1 PTC	28.69	**Provisional [ICRA]A+(SO)**	-	-	-
		Equity Tranche PTC	1.65	**Provisional [ICRA]BBB+(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Equity Tranche 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 I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Amount Rated (Rs. crore)	Current Rating
Trisul 09 2024	Series A1 PTC	September 30, 2024	10.60%	December 17, 2026	28.69	Provisional [ICRA]A+(SO)
	Equity Tranche PTC	September 30, 2024	--	December 17, 2026	1.65	Provisional [ICRA]BBB+(SO)

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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