

March 09, 2023

Ugro Capital Limited: Rating confirmed as final for PTCs backed by unsecured business loan receivables (originated under co-lending partnerships) issued by Bear 08 2022

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Bear 08 2022	PTC Series A1	23.55	[ICRA]A+(SO); provisional rating confirmed as final
	PTC Series A2	0.88	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In September 2022, ICRA had assigned a Provisional [ICRA]A+(SO) rating to PTC Series A1 and Provisional [ICRA]A-(SO) rating to PTC Series A2 issued by Bear 08 2022. The pass-through certificates (PTCs) are backed by a pool of unsecured business loan (UBL) receivables with pool principal of Rs. 29.44 crore (receivables of Rs. 33.91 crore) originated by Ugro Capital Limited. Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said ratings have now been confirmed as final. ICRA has taken note of cash collateral (CC) of Rs. 10 lakh maintained by Ugro which acts as further credit enhancement in the transaction (not factored at time of fresh rating assignment).

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

Parameter	Bear 08 2022
Months post securitisation	5
Pool amortisation	Nil; during the ongoing replenishment period, on each payout date, the collections are being utilised to meet the expected interest payments to the PTC investors and for the purchase of replenishment pool to maintain the pool cover at minimum 1.0x
PTC amortisation	
Cumulative collection efficiency	97.29%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS) and overcollateralisation / subordination
- No overdue contracts in the pool as on the cut-off date. Furthermore, the replenishment pool satisfies the eligibility criteria

Credit challenges

- Exposed to inherent credit risks associated with the unsecured 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

The initial pool as on cut-off date comprised of unsecured business loan (UBL) receivables originated by Ugro under co-lending arrangements with identified partners, namely LendingKart Finance Limited (LendingKart) and Riviera Investors Private Limited (Riviera). The replenishment pool comprises of UBL receivables originated by Ugro itself. The entire interest and principal

amount for both PTC Series A1 and PTC Series A2 is promised on maturity and the payouts during the interim months would be on an expected basis. The transaction timeline is divided into two periods, viz. (1) the replenishment period, wherein the pool's cash flows are utilised to purchase new contracts originated by Ugro itself, and (2) the amortisation period, wherein the pool gradually amortises. The final maturity date is August 25, 2025.

Replenishment period: The monthly cash flows during the replenishment period, i.e. from October 25, 2022 to March 25, 2023, on each payout date would comprise the payment of the interest expected to PTC Series A1 and PTC Series A2 at the predetermined interest rate on the principal outstanding. All excess cash flow, after meeting the expected PTC Series A1 and PTC Series A2 interest payouts, would be utilised for the purchase of replenishment pools, as per the predetermined criteria, to restore the pool cover¹.

Amortisation period: The monthly cash flow schedule during the amortisation phase, i.e. from March 26, 2023, would comprise the payment of the expected interest to PTC Series A1 and PTC Series A2 at the predetermined interest rate on the principal outstanding. This would be followed by the payment of the expected principal amounts (including, for the avoidance of doubt, any unpaid expected principal payouts to Series A1 PTCs from earlier payout dates) to the PTC Series A1 investors till Series A1 is redeemed in full. Following the maturity of PTC Series A1, all excess cash flow after meeting the expected PTC Series A2 interest payouts will be used to pay the expected PTC Series A2 principal (to the extent of pool principal billing). All balance amounts, if any, shall flow back to the residual beneficiary (originator).

The first line of support for PTC Series A1 in the transaction is in the form of subordination of 20.0% of the pool principal (includes 17.00% over-collateralisation and 3.00% for PTC Series A2). After PTC Series A1 is fully paid, over-collateralisation of 17.00% of the pool principal is available for PTC Series A2. Further credit support is available in the form of an EIS of 11.80% of the pool principal for Series A1 PTCs and 11.24% of the pool principal for Series A2 PTCs. In addition, Ugro has maintained cash collateral (CC) of Rs. 10 Lakh which acts as further credit enhancement in the transaction.

The ratings derive comfort from the credit enhancement (CE) in the structure and the strict eligibility criteria defined for the initial pool as well as the replenishment pool. In addition, ICRA has noted Ugro's co-lending book's performance and its ability to step in as a servicer if required, though the same remains untested. ICRA notes that the performance of the pool would remain exposed to risks associated with the unsecured nature of the asset class.

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 5.75-6.75% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 4.8-18.0% per annum.

¹ Computed as the ratio of Outstanding principal (including principal arrears) against the total pool (excluding amounts due from 90+ dpd contracts) plus the cash trapped in the Trust Account to the Initial pool principal; the pool cover shall be maintained at a minimum of 1.0x during the replenishing period

Liquidity position: Strong

As per the transaction structure, there are no promised monthly cash flows to the investor while the principal and the interest are promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive/Negative factors – The ratings are unlikely to be revised during the replenishment period. Any rating revision would depend on the performance of the underlying pool and the CE utilisation during the amortisation period.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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. The company was incorporated in 1993, as the erstwhile 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 Rs. 5,095 crore as of December 2022. The company has been listed on the BSE since 1995, with a demonstrated track record of profitability. It is present in 12 states/union territories and has 98 branches as of September 2022.

Key financial indicators

	FY2021	FY2022	9M FY2023
Net worth	952	966	969
Profit after tax	28.7	14.6	25.7
Assets under management	1,317	2,969	5,095
Gross NPA	2.7%	2.3%	1.7%
Net NPA	1.7%	1.7%	1.1%

Source: Company & 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

	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 09, 2023	October 04, 2022			
1	Bear 08 2022	PTC Series A1	23.55	23.55	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	-
		PTC Series A2	0.88	0.88	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)			

Complexity level of the rated instrument

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	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	23.55	[ICRA]A+(SO)
	PTC Series A2	September 2022	10.00%	August 2025	0.88	[ICRA]A-(SO)

*Scheduled maturity date at transaction initiation; may change on account of prepayments

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.

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