

June 02, 2022

Edelweiss Retail Finance Limited: Rating confirmed as final for PTCs backed by unsecured business loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
UBL Trust 12	Series A1 PTC	28.30	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In March 2022, ICRA had assigned a Provisional [ICRA]AA(SO) rating to Series A1 PTC issued by UBL Trust 12. The pass-through certificates (PTCs) are backed by receivables worth a Rs. 36.07 crore pool of unsecured business loans (underlying pool principal of Rs. 31.45 crore) originated by Edelweiss Retail Finance Limited (ERFL/Originator, rated [ICRA] A+(Negative)). 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 rating has now been confirmed as final.

A summary of the performance of the pool as of May 2022 payout month has been provided below.

Parameter	UBL Trust 12
Months post securitisation	2
Actual pool amortisation	16.08%
Scheduled pool amortisation	13.37%
Actual PTC amortisation	19.70%
Average monthly prepayment rate	1.45%
Cumulative collection efficiency	99.41%
Loss cum 0+ dpd	0.80%
Loss cum 30+ dpd	0.00%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, subordination and CC
- High pre-securitisation amortisation of the pool at around 43%
- All contracts in the pool are current as on the pool cut-off date
- 99.8% of the contracts in the pool have CIBIL score of more than 700

Credit challenges

- High geographical concentration with top 3 states accounting for ~82% of the pool
- Rise in delinquencies for unsecured business loans portfolio post Covid-19 pandemic
- Pool's performance will remain exposed to any fresh disruptions caused by the Covid-19 pandemic

Description of key rating drivers highlighted above

As per the transaction structure, the promised monthly cash flow schedule comprises the interest payments to Series A1 PTC

at the predetermined interest rate on the principal outstanding. The principal repayment to Series A1 PTC is promised on the scheduled maturity date. The principal is expected to be paid on a monthly basis to the extent of billing but is not promised. All the collections from the pool that is in excess of the promised payout and expected principal payout would be utilised to accelerate the amortisation of the Series A1 PTC. The scheduled principal payout at the end of every month will be revised accordingly.

The first line of support for Series A1 PTC in the transaction is in the form of subordination of 10.0% of the pool principal, which will be in the form of equity tranche (Series A2 PTC). Additionally, the EIS available in the structure will provide CE support to the transaction. A CC of 7.0% of the initial pool principal (i.e. Rs. 2.20 crore) provided by ERFL acts as further CE in the transaction. The CC will be in the form of a fixed deposit maintained with a bank. In case of shortfall in meeting the promised PTC payout during any month, the Trustee will utilise the CC to meet the shortfall if the subordination and EIS are not sufficient. The CC provides credit support against losses in the pool and imparts liquidity to the transaction.

The underlying loans follow a monthly payment schedule. There are no overdues in the pool and none of the loans in the pool are restructured as on the cut-off date. The average pre-securitisation amortisation remains high at ~43%, as on the cut-off date (February 28, 2022). Further, 99.8% of the pool's contracts have a CIBIL score of more than 700, indicating good credit behaviour. The pool has high geographical concentration with the top 3 states (Maharashtra, Gujarat and Delhi) contributing ~82% to the initial pool principal amount. The pool's performance would remain exposed to disruptions caused by the pandemic.

Past rated pools performance: ICRA has rated four PTC transactions backed by SBL receivables for Edelweiss Group. The pools have reported satisfactory collections with nil CC utilisation up to the April 2022 payouts.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) 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 mean and coefficient of variation (CoV) are calibrated based on the values observed in the analysis of the past performance of the Originator's loan portfolio. Given the Edelweiss Group's modest track record in the unsecured business loan segment, ICRA has considered the credit quality experience of other more established players and ICRA's expectation of the credit quality of business loans. The Edelweiss Group's target borrower segment in unsecured business loan could be financially vulnerable as well as subject to various seasonality factors. Though the company resorts to legal recourse for some delinquent loans, this may not always be a feasible option particularly given the small ticket size and the unsecured nature of the loans issued.

The resulting collections from the pool – after incorporating the impact of losses and prepayments as above – are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks for the target rating.

For the current pool, after considering the above-mentioned factors regarding the asset class and adjusting for key features like seasoning, overdues, ticket size, industry, IRR, bureau score and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 4.5-5.5%, with certain variability around it. The prepayment rate in the pool is assumed at 8.0-12.0% p.a. ICRA's estimation of the variability also factors in the limited track record of the Edelweiss Group in unsecured business loan. ICRA notes that the uncertainty around macro-level economic activity could lead to nearterm stress on the pool's performance.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the Series A1 PTC holders on a monthly basis, while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the Series A1 PTC investors.

Rating sensitivities

Positive factors – The rating could be upgraded based on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future PTC payouts from the CE.

Negative factors – The rating could be downgraded based on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

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 company

ERFL is a non-deposit taking systemically important non-banking financial company (NBFCND-SI) registered with the Reserve Bank of India (RBI). ERFL was incorporated in 1997 as Affluent Dealcom Private Limited. It was subsequently acquired by Edelcap Securities Limited and was rechristened Edelweiss Retail Finance Limited in January 2014. ERFL serves as the retail-oriented lending arm for the Edelweiss Group and is primarily involved in the business of lending and its products include loan against property for meeting the business requirements of small and medium enterprise (SME) customers. As on March 31, 2021, Edelcap Securities Limited held a 70.45% stake in ERFL, followed by Edelweiss Financial Services Limited (22.57%) and Edelweiss Finvest Limited (6.98%).

The company reported a net profit of Rs. 26.84 crore on a total income of Rs. 250.06 crore in FY2021 against a net profit of Rs. 1.06 crore on total income of Rs. 289.36 crore in FY2020. ERFL had a net worth of Rs. 489.93 crore and total assets of Rs. 1,518.48 crore as on March 31, 2021 compared to Rs. 463.04 crore and Rs. 1,989.13 crore, respectively, as on March 31, 2020. Its borrowings stood at Rs. 954.54 crore as on March 31, 2021 compared to Rs. 1,452.73 crore as on March 31, 2020.

Edelweiss Financial Services Limited

Edelweiss Financial Services Limited (EFSL), the holding company of the Edelweiss Group, was incorporated in 1995 by first-generation entrepreneurs to offer investment banking services primarily to technology companies. At present, the Group is involved in wholesale and retail financing, distressed assets resolution, corporate debt syndication and debt restructuring, institutional and retail equity broking, corporate finance advisory, wealth advisory and asset management. It forayed into housing finance in FY2011, life insurance in FY2012 and general insurance in FY2018.

Key financial indicators

Edelweiss Financial Services Limited (consolidated)	FY2020	FY2021
Total income	9,603	10,849
Profit after tax - Including minority interest	(2,044)	254
Loan assets**	28,361	21,911
Gross NPA (%)	5.3%	7.7%
Net NPA (%)	4.1%	4.1%

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

**** Loan assets include on-book loans and security receipts**

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2022)				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
					June 02, 2022	March 18, 2022	-	-
1	UBL Trust 12	Series A1 PTC	28.30	28.30	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
UBL Trust 12	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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
UBL Trust 12	Series A1 PTC	March 2022	8.75%	April 20, 2024	28.30	[ICRA]AA(SO)

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

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Samriddhi Chowdhary

+91 22 6114 3462

samriddhi.chowdhary@icraindia.com

Rushabh Gohel

+91 22 6114 3420

rushabh.gohel@icraindia.com

Mrugesh Trivedi

+91 22 6114 3436

mrugesh.trivedi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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