

July 28, 2022

Kogta Financial India Limited: Rating upgraded for PTCs under vehicle loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount after Previous Rating Exercise (Rs. crore)	Amount after June 2022 Payout (Rs. crore)	Rating Action
Maryland 12 2020	PTC Series A1	46.06	32.10	7.51	[ICRA]AA+(SO); Upgraded from [ICRA]AA(SO)

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) originated by Kogta Financial India Limited (KFIL) are backed by vehicle loan receivables. The rating upgrade takes into account the significant amortisation in the transaction, which has led to the build-up of the credit enhancement cover over the future PTC payouts. The rating draws comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection level observed in the pool till the June 2022 payout month.

Pool performance summary

A summary of the performance of the pool till the May 2022 collection month (June 2022 payout) has been tabulated below.

Parameter	Maryland 12 2020
Months post securitisation	18
Pool amortisation	73.6%
PTC Series A1 amortisation	83.7%
Cumulative collection efficiency	97.8%
Cumulative prepayment rate	16.56%
Average monthly prepayment rate	1.00%
Loss-cum-30+ (% of initial pool principal) ¹	3.88%
Loss-cum-90+ (% of initial pool principal) ²	1.23%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	37.87%
Excess interest spread (EIS) over balance tenure (as % of balance pool)	13.27%

¹ POS on contracts aged 30+ dpd + overdues / Initial POS on the pool

² POS on contracts aged 90+ dpd + overdues / Initial POS on the pool

Reset of credit enhancement

At the request of KFIL for resetting the credit enhancement, ICRA has analysed the transaction at a cash collateral (CC) of 11.39% of the balance pool principal (i.e. Rs 1.54 crore) against the currently available CC of 37.87% of the balance pool principal (after June 2022 payouts). Based on the pool's performance, the rating will get upgraded even after the reset of the CC amount. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

Key rating drivers

Credit strengths

- High amortisation of the pool, leading to lower uncertainty regarding the performance of the balance pool contracts
- High CC and excess interest spread (EIS) cover available for the balance pool
- Healthy collection performance of the pool leading to lower delinquencies

Credit challenges

- Pool's performance would remain exposed to any fresh disruptions caused by Covid-19 pandemic

Description of key rating drivers highlighted above

The cumulative collection efficiency for the pool has been healthy and has exceeded 96% in all the months since origination. Any shortfall in the collections in the past has been absorbed by the EIS available in the structure. Hence, there has been no CC utilisation till date in the pool. Further, due to the significant amortisation of the pool, there has been a considerable build-up in the credit enhancement for the balance tenure of the PTC payouts. Hence, the credit enhancement available for meeting the balance payouts to the investors is sufficient for the transaction. Going forward, any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations. ICRA will continue to closely monitor the performance of the transaction.

Performance of past rated pools: ICRA has rated 10 vehicle/tractor loan pools originated by KFIL, of which three are live as on date. All the pools have reported satisfactory collection efficiency with no instance of CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of 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 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 loss (% of initial pool principal) and prepayments during the balance tenure of the pool are expected to be in the range of 1.0-2.0% and 4.8-18%, respectively.

Liquidity position: Strong

The cash collections and the CC available in the transaction are expected to be comfortable to meet the investor payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the PTC payouts for the balance PTC tenure.

Rating sensitivities

Positive factors – The rating could be upgraded if sustained strong collection performance is witnessed, leading to low delinquency levels and further build-up of the credit enhancement cover.

Negative factors – Pressure on the rating could emerge due to the sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and credit enhancement utilisation levels.

Analytical approach

The rating action is based on the performance of the pool till June 2022 (payout month), the present delinquency profile of the pool, the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Kogta Financial India Limited (KFIL), incorporated in 1996, is a non-banking financial company (NBFC), which primarily finances new and used commercial vehicles, multi-utility vehicles, cars, and tractors. It also provides loans against property (LAP) and micro, small and medium enterprise (MSME) loans. The Jaipur-based company operates through a network of about 170 branches (as of December 31, 2021) across Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Delhi NCR, Uttar Pradesh and Punjab and Haryana.

As of March 31, 2022, the company's assets under management (AUM) stood at ~Rs. 2,182 crore compared to ~Rs. 1,496 crore in March 2021. While the used vehicle financing segment accounted for a 63% share of the AUM as of March 31, 2022, the new vehicle financing segment's share stood at 14% with LAP/MSME loans accounting for the balance. Rajasthan accounted for 36.7% of the AUM as of March 31, 2022.

The promoter group, viz. the Kogta family, holds a 36.66% equity share in the company on a fully-diluted basis. Other key investors include IIFL Seed Ventures, Morgan Stanley Private Equity Asia, and Aditya (Mauritius) Ltd.

Key financial indicators

Kogta Financial India Limited	FY2020	FY2021	FY2022
PAT	25	45	52
Net worth	549	596	651
Assets under management	1,072	1,496	2,183
Gross NPA	3.2%	3.3%	3.6%
Net NPA	2.6%	2.4%	2.5%

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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
				Jul 28, 2022				
Maryland 12 2020	PTC Series A1	46.06	7.51	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Maryland 12 2020	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: www.icra.in

Annexure I: Instrument details

Trust Name	Instrument Type	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
Maryland 12 2020	PTC Series A1	December 2020	9.40%	August 2025	7.51	[ICRA]AA+(SO)

*Scheduled maturity 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.

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