

July 29, 2022

ECL Finance Limited: Provisional [ICRA]AA(SO) assigned to PTCs backed by unsecured business loan receivables issued by UBL Trust 16

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
UBL Trust 16	Series A1 PTC	25.61	Provisional [ICRA]AA(SO); Assigned

*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a Provisional [ICRA]AA(SO) rating to Series A1 PTC issued under a securitisation transaction originated by ECL Finance Limited {ECL Finance/Originator; [ICRA]A+ (Stable)}. The pass-through certificates (PTCs) are backed by a pool of Rs. 35.69-crore unsecured business loan receivables (underlying pool principal of Rs. 30.13 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 5.0% of the initial pool principal to be provided by ECL Finance, (ii) over-collateralisation (in the form of an equity tranche) of 15.0% of the pool principal for Series A1 PTC and (ii) the entire excess interest spread (EIS) 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 the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, over-collateralisation and CC
- Moderate pre-securitisation amortisation in the pool at ~27%
- All contracts in the pool are current as on the pool cut-off date
- Nearly 96% of the contracts in the pool have a CIBIL score of more than 725

Credit challenges

- High geographical concentration with top 3 states accounting for ~55% of the pool
- Pool's performance will remain exposed to any further 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. The EIS available after meeting the promised and expected payments, as given above, will flow back to the Originator on a monthly basis. However, if the 60+ days past due (dpd) increases to 10% of the original pool principal in any month, post securitisation, the EIS will not pass on to the Originator and would instead be utilised towards the prepayment of the principal on a monthly basis.

The first line of support for Series A1 PTC in the transaction is in the form of over-collateralisation (in the form of an equity tranche) of 15.0% of the pool principal. Additionally, the EIS available in the structure will provide CE support to the transaction. A CC of 5.0% of the initial pool principal (i.e. Rs. 1.51 crore) provided by ECL Finance acts as further CE in the transaction. The CC will be in the form of a fixed deposit maintained with a bank. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall if the over-collateralisation and the EIS are not sufficient. The CC not only provides credit support against losses in the pool, it also 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 remained moderate at ~27% as on the cut-off date (June 30, 2022). Further, ~96% of the contracts in the pool have a CIBIL score of more than 725, indicating good credit behaviour. The pool has high geographical concentration with the top 3 states (Delhi, Gujarat and Maharashtra) contributing ~55% to the initial pool principal amount. The performance of the pool would remain exposed to disruptions caused by the pandemic.

Past rated pools: ICRA has a rating outstanding on three unsecured business loan pools that were originated by ECL Finance. The pools have reported a healthy collection efficiency up to the June 2022 payouts with no instance of CC utilisation.

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 on the basis of the values observed in the analysis of the past performance of the Originator's loan portfolio. Given the modest track record of ECL Finance in the unsecured business loan segment, ICRA has also considered the credit quality experience of other more established players and ICRA's expectation of the credit quality of business loans. ECL Finance's target borrower segment 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 after adjusting for key features like seasoning, overdues, ticket size, industry, internal rate of return (IRR), bureau score and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 5.5-6.5%, 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 ECL Finance's limited track record. ICRA notes that the uncertainty regarding macro-level economic activity could lead to near-term 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. 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 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 analysis of the performance of ECL Finance’s portfolio till March 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE 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. Chartered Accountant’s know your customer (KYC) 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 company

ECL Finance Limited is a systemically important non-deposit taking non-banking financial company (NBFC-ND-SI) registered with the Reserve Bank of India (RBI). It is the primary wholesale lending company for the Edelweiss Group. Edelweiss Financial Services Limited (EFSL) held 99.99% of the equity as on March 31, 2022. CDPQ Private Equity Asia PTE Ltd. held compulsory convertible debentures (CCDs) of Rs. 1,039.5 crore as on March 31, 2022.

The company currently carries out the Group’s financing activities like structured collateralised corporate loans, real estate financing, loans against securities, small and medium-sized enterprise (SME) loans, loan against property, employee stock ownership plan (ESOP) financing and initial public offering (IPO) funding. It reported a net profit of Rs. 79.36 crore on total income of Rs. 1,660.77 crore in FY2021 compared to a net profit of Rs. 2.23 crore on total income of Rs. 2,001.39 crore in

FY2021. Its total assets stood at Rs. 18,979.08 crore while its net worth was Rs. 2,482.33 crore as of March 31, 2022 compared to Rs. 14,345.98 crore and Rs. 2,559.45 crore, respectively, as of March 31, 2021. The borrowings stood at Rs. 10,955.15 crore as of March 31, 2022 compared to Rs. 15,956.18 crore as of March 31, 2021. The capital-to-risk weighted assets ratio (CRAR) stood at 30.50% (Tier 1 of 16.38%) as of March 31, 2022 compared to 25.26% (Tier 1 of 13.77%) as of March 31, 2021.

Edelweiss Financial Services Limited

Edelweiss Financial Services Limited (EFSL), the holding company of the Edelweiss Group of companies, was incorporated in 1995 by first-generation entrepreneurs to offer investment banking services primarily to technology companies. At present, the Group is engaged 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.

On a standalone basis, EFSL had posted total income of Rs. 1,372 crore and a profit after tax (PAT) of Rs. 933 crore in FY2022 compared to Rs. 1,722 crore and Rs. 716 crore, respectively, in FY2021. It had a net worth of Rs. 5,000 crore, total borrowings of Rs. 2,432 crore and total assets of Rs. 8,042 crore as of March 31, 2022 compared to Rs. 4,126 crore, Rs. 838 crore and Rs. 5,981 crore, respectively, as of March 31, 2021.

Key financial indicators (audited)

Edelweiss Financial Services Limited (consolidated)	FY2020	FY2021	FY2022
Net interest income	1,109	200	61
Total income	9,603	10,849	7,305
Profit after tax (Edelweiss' share)	(2,045)	265	189
Profit after tax - Including MI	(2,044)	254	212
Net worth	7,207	7,677	7,592
Loan asset	28,361	22,455	20,006
Total assets	54,280	46,350	43,188
Return on assets	-3.5%	0.5%	0.5%
Return on equity	-25.7%	3.4%	2.8%
Gross NPA (%)	5.3%	7.7%	7.1%*
Net NPA (%)	4.1%	4.1%	1.6%
Net NPA/Net worth (%)	11.9%	8.2%	2.7%
Gross gearing (times)	5.1	3.7	3.0
CRAR (%)	21%	21%	30%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; *Includes Rs. 558 crore of exposures which have been fully provisioned

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	
					July 29, 2022				
1	UBL Trust 16	Series A1 PTC	25.61	25.61	Provisional [ICRA]AA(SO)	-	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
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
UBL Trust 16	Series A1 PTC	July 2022	9.90%	Dec 20, 2024	25.61	Provisional [ICRA]AA(SO)

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

Source: Company

Annexure-2: 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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