October 04, 2022

Ugro Capital Limited: Provisional [ICRA]A+(SO) assigned to PTC Series A1 and Provisional [ICRA]A-(SO) assigned to PTC Series A2 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	Provisional [ICRA]A+(SO); Assigned
	PTC Series A2	0.88	Provisional [ICRA]A-(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

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Ugro Capital Limited (Ugro) through co-lending partnerships. The PTCs are backed by a pool of Rs. 33.91-crore unsecured business loan receivables (underlying pool principal of Rs. 29.44 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts and the credit enhancement (CE) available in the form of (i) subordination of 20.0% of the pool principal for PTC Series A1 and 17.00% for PTC Series A2, and (ii) subordination of excess interest spread (EIS) of 11.80% of the pool principal for PTC Series A1 and 11.24% of the pool principal for PCT Series A2, as well as the integrity of the legal structure. The ratings are 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 over-collateralisation/subordination and EIS
- No overdue contracts as on pool cut-off date; further, replenishment pool would comprise contracts that are current at the time of assignment

Credit challenges

- Relative uncertainty regarding the follow-on pools, given the replenishment structure in the transaction
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; performance of the pool could remain exposed to macroeconomic shocks/business disruptions

Description of key rating drivers highlighted above

Ugro would assign the future receivables arising from the selected pool to a special purpose vehicle (Trust). The pool comprises unsecured business loan receivables originated by Ugro under co-lending arrangements with identified partners, namely LendingKart Finance Limited (LendingKart) and Riviera Investors Private Limited (Riviera). The Trust would issue two series of PTCs, namely PTC Series A1 and PTC Series A2. The entire interest and principal amount for both Series A1 PTC and Series A2 PTC 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 cover[1].

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.

There are no overdues in the pool as on the cut-off date. The pre-securitisation amortisation is moderate at 24.6% as on the cut-off date. The pool has high geographical concentration with the top 3 states contributing ~45% to the pool principal amount. ICRA takes comfort from certain criteria mentioned for the selection of the replenishment pools – mainly that the loans should be non-delinquent and should not have peak days past due (dpd) of more than 30 days. Moreover, the replenishment contracts would consist of unsecured loans originated directly by Ugro. Nonetheless, the pool's performance would remain exposed to the uncertainty regarding the follow-on pools, given the replenishment structure in the transaction. 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 (including the portfolio built through co-lending partnerships) and the rated pools as well as the performance and characteristics of the specific pool being evaluated. However, for the current transaction, the characteristics of the pool would change as it would be revised during the replenishment period, unlike other PTC transactions where the pool is static. ICRA has used the defined eligibility criteria to arrive at the potential loss for the follow-on pools. Additionally, the assumptions may be adjusted to account for the current macroeconomic situation as well as any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

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[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*

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 5.75% to -6.75%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0-18.0% per annum.

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 analysis of the performance of Ugro's co-lending portfolio and its own portfolio till June 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 ratings are 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 certificate for know your customer (KYC) due diligence
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 ratings 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 ratings, the provisional ratings will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

Ugro Capital Limited (Ugro) is a specialised small business lending platform, which is registered as a systemically important non-deposit taking non-banking financial company (NBFC). The company was incorporated in 1993, as the erstwhile Chokhani Securities Ltd, and was renamed Ugro Capital Limited following a change in the management in 2018. It commenced disbursements in January 2019 and had assets under management (AUM) of Rs. 3,618 crore as of June 2022. Ugro has been listed on the BSE since 1995, with a demonstrated track record of profitability. It is currently present in 26 states and has 92 branches.

Key financial indicators

	FY2021	FY2022	Q1 FY2023
Net worth	952	966	975
Profit after tax	28.7	14.55	7.34
Assets under management	1,317	2,969	3,618
Gross NPA	2.7%	2.30%	2.13%
Net NPA	1.7%	1.70%	1.57%

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
					October 04, 2022	-	-	-
1	Bear 08 2022	PTC Series A1	23.55	23.55	Provisional [ICRA]A+(SO)	-	-	-
		PTC Series A1	0.88	0.88	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	Provisional [ICRA]A+(SO)
	PTC Series A2	September 2022	10.00%	August 2025	0.88	Provisional [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.

For more information, visit www.icra.in

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