

November 03, 2022

## Kogta Financial India Limited: Provisional [ICRA]AA(SO) rating assigned to Series A1 SN backed by vehicle loan receivables issued by Miami 10 2022

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Miami 10 2022	Series A1 SN	81.00	Provisional [ICRA]AA(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
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### Rationale

ICRA has assigned a provisional [ICRA]AA(SO) rating to the securitisation notes (SNs) issued under a securitisation transaction originated by Kogta Financial India Limited (Kogta). The SNs are backed by a pool of Rs. 90.00-crore (pool principal; receivables of Rs. 115.00 crore) of vehicle loan receivables.

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 7.00% of the pool principal to be provided by the Originator, (ii) subordination of 10.00% of the pool principal for Series A1 SN, (iii) presence of excess interest spread (EIS) in the structure for Series A1 SN, and 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, subordination and CC
- All contracts in the pool are current as on pool cut-off date with ~97% contracts having nil peak DPD
- Pool has weighted average seasoning of 7.12 months as on cut-off date

#### Credit Challenges

- Weighted average loan-to-value (LTV) of ~73% in the initial pool
- Performance of the pool would be exposed to any macro-economic shocks/business disruptions.

### Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule comprises of promised interest payment to Series A1 SN at the pre-determined interest rate on the principal outstanding. The principal repayment to Series A1 SN is promised on each payout date only to the extent of 90% of the billed pool principal amount for each month. During the tenure of Series A1 SN, the collections from the pool, after making the promised payouts to Series A1 SN, will be used to make the expected principal payouts to Series A1 SN, albeit a portion of the monthly principal payout (10%) is not promised and any shortfall in making the expected principal payment to Series A1 SN would be carried forward to the subsequent payout. The EIS available after meeting the promised and scheduled payments, as given above, will flow back to the Originator on a monthly basis.

The first line of support for Series A1 SN in the transaction is in the form of a subordination of 10.00% of the initial pool principal. Further support is available in the form of the EIS of 15.80% of the initial pool principal. A CC of 7.00% of the initial

pool principal provided by Kogta acts as further CE in the transaction. In the event of a shortfall in meeting the promised payouts during any month, the trustee will utilise the CC to meet the shortfall.

The pool consists of loans with a moderate weighted average seasoning of 7.1 months and nil share of overdue contracts as on the pool cut-off date. The pool has mix of used and new vehicle loans in the ratio of 84:16. The pool consists of used car (48.5%), new car (10.1%); used commercial vehicles (CV) (16.1%); new CV (4.1%), used multiutility vehicle (MUV) (17.7%); new MUV (1.9%), used construction equipment (1.5%). Average LTV in the pool is seen at 72.7%. The pool is also geographically concentrated with the share of the top state Rajasthan at 26.7%. ICRA notes that the performance of the pool would be exposed to any macro-economic shocks/business disruptions.

**Performance of past rated pools:** ICRA has rated 10 securitisation transactions with the underlying receivables originated by Kogta of which three are live at present. Matured pools have performed well with no instance of CC utilisation. The live pools have reported a healthy performance with a cumulative collection efficiency of more than 97% as of the August 2022 payout month and no CC utilisation till date.

### Key rating assumptions

ICRA's cash flow modelling for rating ABS transactions involves 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 the Co-efficient 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. ICRA has also taken into account the credit quality experience of Kogta and ICRA's expectation of credit quality for the asset classes involved. 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 adjusting for the key features like seasoning, overdue, LTV, initial loan tenure and geographical distribution separately for each of the asset class in the pool, ICRA estimates the shortfall in pool principal collection within the pool's tenure to be 4.5% - 5.5%, with certain variability around it. The variability is based on the static pool analysis of Kogta's portfolio for each of the asset class in the pool as well as on ICRA's observation on the performance of the respective asset class for other originators. ICRA's estimation of the variability also takes into account the relatively moderate track record of Kogta. The average prepayment rate for the underlying pool is estimated to be 12.0% per annum.

### Liquidity position: Strong

The cash collections and the credit collateral 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 contracts in a stress scenario, the credit collateral would cover the shortfalls in the SN payouts for a period of six months.

### Rating sensitivities

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

**Negative factors** – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (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 Kogta's vehicle loan 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 a final rating 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 ratings, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## About the Originator

Kogta Financial India Limited (Kogta), incorporated in 1996, is an NBFC, which primarily finances new and used commercial vehicles, multi-utility vehicles, cars, and tractors. It also provides MSME loans and loans against property (LAP). The Jaipur-based company operates through a network of about 186 branches (as of June 30, 2022) across Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Delhi NCR, Uttar Pradesh and Punjab and Haryana. As of June 30, 2022, the company's AUM stood at ~Rs. 2,342 crore compared to ~Rs. 2,182 crore in March 2022. While the used vehicle financing segment accounted for a 65% share in the AUM as of June 30, 2022, the new vehicle financing segment's share stood at 13% with LAP/MSME loans accounting for the balance. Rajasthan accounted for 36% of the AUM as of June 30, 2022.

Post the equity infusion in May 2022, the promoter group, viz. the Kogta family, holds a 31.7% equity stake (including warrants) in the company on a fully-diluted basis, while the balance is held by Morgan Stanley Private Equity Asia (23.2%), Creador Advisors India LLP (17.2%), Multiples Private Equity (14.3%) and Javelin Investments (9%).

## Key Financial Indicators

For the period ended	FY2021	FY2022	Q1 FY2023
Net worth	596	651	1,056
Profit after tax	45	52	9
Assets under management	1,491	2,182	2,341
% Gross NPAs	3.3%	3.6%	4.9%
% Net NPAs	2.4%	2.5%	3.5%

Source: Company data, 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	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				November 3, 2022			
Miami 10 2022	Series A1 SN	81.00	81.00	Provisional [ICRA]AA(SO)	-	-	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 SN	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](http://www.icra.in)

## Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate^	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
<b>Miami 10 2022</b>	Series A1 SN	October 2022	8.65%	March 2027	81.00	Provisional [ICRA]AA(SO)

<sup>^</sup>p.a.p.m.; <sup>\*</sup>Scheduled PTC 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](http://www.icra.in)

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