

December 02, 2022

Ugro Capital Limited: Rating confirmed as final for PTCs backed by unsecured business loan receivables issued by Eternals August 2022

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Eternals August 2022	PTC Series A1	21.81	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In September 2022, ICRA had assigned a Provisional [ICRA]AA(SO) rating to PTC Series A1 issued by Eternals August 2022. The pass-through certificates (PTCs) are backed by a pool of Rs. 24.23-crore unsecured business loan (UBL) receivables (underlying pool principal of Rs. 30.01 crore) originated by Ugro Capital Limited. 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 pool's performance after the October 2022 payout is shown in the table below.

Parameter	Eternals August 2022
Months post securitisation	2
Pool amortisation	6.72%
PTC amortisation	9.18%
Cumulative collection efficiency	98.38%
Loss-cum-0+ dpd	2.85%
Loss cum 30+ dpd	0.53%
Cumulative prepayment rate	0.35%
Cumulative cash collateral (CC) utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), subordination and cash collateral (CC)
- No overdue contracts in the pool as on the cut-off date
- All contracts in the pool have a CIBIL score greater than 700 as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states accounting for ~50% of the pool as on the cut-off date
- Limited vintage has been observed since majority of the book building has happened in the last two years
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation (i.e. subordination) of 10.0% of the pool principal. Further credit support is available in the form of an EIS of 15.04% and a CC of 10.0% of the initial pool principal (i.e. Rs. 2.42 crore) provided by Ugro in the transaction.

As per the transaction structure, the promised cash flow schedule for PTC Series A1 on a monthly basis comprises the interest (at the predetermined yield) on the outstanding PTC principal on each payout date and the entire principal on the final maturity date. The final maturity date is February 20, 2025. During the tenure of PTC Series A1, all excess cash flow to the extent of principal billed, after meeting the promised interest payouts, will be paid out to meet the expected PTC Series A1 principal payout. All prepayment amounts would be passed on to PTC Series A1 (till the PTC Series A1 principal is not fully amortised) every month and its future payouts will be revised accordingly. The EIS available after meeting the promised and scheduled payments will be utilised for the payment of the PTC Series A1 principal.

There were no overdues in the pool as on the cut-off date. The pre-securitisation amortisation was moderate at 18.75% and the pool did not have any overdue contracts as on the pool cut-off date. The pool had high geographical concentration with the top 3 states accounting for ~50% of the pool principal amount. Further, all the contracts in the pool had a CIBIL score of more than 700 as on the cut-off date. ICRA notes that the performance of the pool would remain exposed to macro-economic shocks or business disruptions.

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 and the 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 contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.75-5.75% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 4.8-18.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the 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 credit enhancement are expected to be comfortable to meet the promised payouts to the PTC Series A1 investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the credit enhancement cover for the remaining payouts.

Negative factors – Pressure on the rating could emerge on the sustained weak collection performance (monthly collection efficiency <90%) 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 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 Originator

Ugro Capital Limited (Ugro) is a specialised small business lending platform registered as a systemically important non-deposit taking non-banking financial company. The company was incorporated in 1993, as the erstwhile Chokhani Securities Ltd, and was renamed Ugro Capital Limited pursuant to a change in the management in 2018. The company commenced disbursements in January 2019 and had assets under management (AUM) of Rs. 4,375 crore as of September 2022. The company 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	H1 FY2023
Net worth	952	966	955
Profit after tax	28.7	14.6	12.6
Assets under management	1,317	2,969	4,375
Gross NPA	2.7%	2.3%	1.7%
Net NPA	1.7%	1.7%	1.2%

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
					December 02, 2022	September 01, 2022			
1	Eternals August 2022	PTC Series A1	21.81	21.81	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Eternals August 2022	PTC Series A1	August 2022	10.60%	February 2025	21.81	[ICRA]AA(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:

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