

December 14, 2022

Kogta Financial India Limited: Ratings upgraded for PTCs under two vehicle loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount after Previous Rating Exercise (Rs. crore)	Amount after Nov-2022 Payout (Rs. crore)	Rating Action
Indigo 002	PTC Series A1	35.00	NA	8.04	[ICRA]AA+(SO); Upgraded from [ICRA]AA(SO)
Darcy 11 2021	PTC Series A1	99.91	NA	37.29	[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 for both the transactions considers the high amortisation in these transactions, 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 these pools till the October 2022 payout month.

Pool performance summary

A summary of the pools' performance till the October 2022 collection month (November 2022 payout) has been tabulated below.

Parameter	Indigo 002	Darcy 11 2021
Months post securitisation	12	12
Pool amortisation	58.94%	55.44%
PTC Series A1 amortisation	77.01%	62.68%
Cumulative collection efficiency	97.52%	98.49%
Cumulative prepayment rate	19.58%	15.47%
Average monthly prepayment rate	1.80%	1.39%
Loss-cum-30+ (% of initial pool principal)¹	4.50%	2.74%
Loss-cum-90+ (% of initial pool principal)²	1.37%	0.52%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%
CC available (as % of balance pool)	14.61%	20.20%
Subordination (as % of balance pool)	50.97%	24.62%
Excess interest spread (EIS) (as % of balance pool)	14.26%	13.53%

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 Darcy 11 2021 transaction at a cash collateral (CC) of 10.10% of the balance pool principal (i.e. Rs. 5.00 crore) against the currently available CC of 20.20% of the balance pool principal (after November 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

- Healthy collection performance of the pool leading to lower delinquencies
- High amortisation of the pool, leading to lower uncertainty around performance of the balance pool contracts
- Build-up in CC, subordination and EIS cover available for the balance pool

Credit challenges

- Pools' performance would remain exposed to macroeconomic shocks/ business disruptions, if any

Description of key rating drivers highlighted above

As of the November 2022 payout month, both the pools have reported healthy collections with cumulative collection efficiency above 97%. The pools have exhibited lower delinquencies with 90+ dpd below 1.5% as of the November 2022 payout month. There has been no CC utilisation till date in the pools. Further, due to the significant amortisation of the pools, 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 to upgrade these transactions. Going forward, any further rating action will be based on the pools' performance and the availability of credit enhancement relative to ICRA's expectations. ICRA will continue to closely monitor the performance of these transactions.

Performance of past rated pools: ICRA has rated 11 vehicle/tractor loan pools originated by KFIL, of which four 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 considering 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 pools are estimated to be in the range of 2.0-3.0% and 4.8-18%, respectively, for both the pools.

Trust Name	Expected Loss (% of initial pool principal)	Prepayment
Indigo 002	2.50-3.50%	4.8-18% p.a.
Darcy 11 2021	2.00-3.00%	4.8-18% p.a.

Liquidity position

Strong for Darcy 11 2021

The cash collections and the cash 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 of contracts in a stress scenario, the cash collateral would cover the shortfalls in the PTC payouts for five months.

Strong for Indigo 002

As per the transaction structure, only the interest amount is promised to the PTC investors 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 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 pools till September 2022 (payout month), the present delinquency profile of the pools, the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

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 (Kogta), 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 MSME loans and loans against property (LAP). The Jaipur-based company operates through a network of about 186 branches (as on June 30, 2022) across Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Delhi NCR, Uttar Pradesh and Punjab and Haryana.

As on June 30, 2022, the company's assets under management (AUM) stood at ~Rs. 2,342 crore compared to ~Rs. 2,182 crore in March 2022. While the used vehicle financing segment constituted 65% share in the AUM as on June 30, 2022, the new vehicle financing segment's share stood at 13%, with LAP/MSME loans accounting for the balance. Rajasthan contributed to 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	H1 FY2023
Net worth	596	651	1,076
Profit after tax	45	52	28
Assets under management	1,491	2,182	2,615
% Gross NPAs	3.3%	3.6%	4.3%
% Net NPAs	2.4%	2.5%	3.0%

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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
				December 14, 2022	December 14, 2021	December 8, 2021	-	-
Indigo 002	PTC Series A1	35.00	8.04	[ICRA]AA+(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-

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
				December 14, 2022	February 1, 2022	December 2, 2021	-	-
Darcy 11 2021	PTC Series A1	99.91	37.29	[ICRA]AA+(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Indigo 002	PTC Series A1	Moderately Complex
Darcy 11 2021	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

ISIN	Trust Name	Instrument Type	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0JZ915010	Indigo 002	PTC Series A1	November 2021	8.50%	January 2025	8.04	[ICRA]AA+(SO)
-	Darcy 11 2021	PTC Series A1	November 2021	8.75	March 2026	37.29	[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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Ritu Rita

+91 22 6114 3409

ritu.rita@icraindia.com

Mrugesh Trivedi

+91 22 6114 3436

mrugesh.trivedi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6169 3304

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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