

March 13, 2023

Kogta Financial India Limited: Rating confirmed as final for SNs issued under a vehicle loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Miami 10 2022	Series A1 SN	81.00	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In November 2022, ICRA had assigned a Provisional [ICRA]AA(SO) rating to Series A1 securitisation notes (SN) issued by Miami 10 2022 . The SNs are backed by a pool of Rs. 90.00-crore (pool principal; receivables of Rs. 115.00 crore) of vehicle loan receivables originated by Kogta Financial India Limited (Kogta). 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 January 2023 payouts is shown in the table below.

Parameter	Miami 10 2022
Months post securitisation	3
Pool amortisation	12.50%
SN Amortisation Series A1	13.96%
Cumulative collection efficiency (including advance collections)	96.52%
Monthly Collection (Normal Coll + OD Coll)	96.25%
Loss-cum-0+ dpd	8.49%
Loss cum 30+ dpd	1.36%
Loss cum 90+ dpd	0.00%
Cumulative Prepayment rate	3.45%
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)
- 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, if any.

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.

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 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

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

	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, ICRA Research; All ratios as per ICRA's calculations; 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
				March 13, 2023	November 03, 2022			
Miami 10 2022	Series A1 SN	81.00	81.00	[ICRA]AA(SO)	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: [Click Here](#)

Annexure I: Instrument details

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

[^]p.a.p.m.; ^{*} 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.

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