December 22, 2023

Berar Finance Limited: Ratings confirmed as final for PTCs backed by two-wheeler loan receivables issued by Knight 09 2023

Summary of rating action

Trust Name	Instrument*	Initial rated amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Knight 09 2023	Series A1 PTC	14.26	14.26	[ICRA]A-(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In September 2023, ICRA had assigned a Provisional [ICRA]A-(SO) rating to the pass-through certificates (PTCs)Series A1 issued under a securitisation transaction originated by Berar Finance Limited {BFL; rated [ICRA]BBB (Stable)}. The PTCs are backed by receivables from a Rs. 18.19-crore (pool principal amount of Rs. 15.84 crore) (initial pool) pool of two-wheeler loans (TW). 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.

As per the transaction structure the originator would assign follow-on pool to the trust during the replenishment period basis defined eligibility criteria. The amortisation of the PTCs would begin post crystallization of the pool either at end of replenishment period or on occurrence of trigger event. However, ICRA takes comfort from the defined eligibility criteria which is likely to ensure that the follow-on pools would have a better credit profile. The performance of the pool post Nov-23 payout has been healthy with low delinquencies with pool collections used for purchase of follow-on pool subject to the defined waterfall mechanism. Further post Nov-23 payout there has been marginal PTC amortisation due to unavailability of loans for purchase that meet the defined eligibility criteria.

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of excess interest spread (EIS), overcollateralisation and cash collateral (CC)
- Absence of overdue contracts as on pool cut-off date. Contracts part of replenishment pool too would be current at the time of assignment
- Average seasoning of ~15 months and pre- securitisation amortisation of ~38% of the pool as on the pool cut-off date

Credit challenges

- High geographical concentration of the contracts in the pool at the state level (top state of Maharashtra with ~53% share) as on the pool cut off date
- The performance of the transaction would be exposed to performance of the follow-on pools which have a moderate selection criteria
- Performance of the current and follow-on pools would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The promised cash flow schedule for Series A1 PTC on a monthly basis will comprise 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 transaction timeline is divided into two periods, viz. (1) the replenishment period, wherein the pool's cash flows are utilised to purchase new contracts and (2) the amortisation period, wherein the pool gradually amortises. The final maturity date is June 23, 2027.

Replenishment period

During the replenishment period, the collections from the pool will be utilised to purchase additional receivables (or further receivables or a fresh set of additional receivables) at monthly intervals. The purchase of additional receivables from the originator will be such that the replenished pool and the balance original pool meet the eligibility criteria up to the extent of the actual principal repayment/prepayment of the underlying pool during the replenishment period, capped such that the principal outstanding of the replenished pool and the principal outstanding of the original pool on any payout date are equal to the initial pool principal amount. These receivables would be assigned to the trust. The replenishment period will be for 12 months from the transaction commencement date. During this period, the Series A1 PTC investors will receive only the promised interest payouts on a monthly basis and the trust will purchase fresh pools as per the selection criteria from the available balance amount. Any residual amount will flow back to the originator.

Amortisation period

Post the replenishment period, the residual pool collections, after meeting the promised interest payout to the PTC investors, shall be used to make the expected principal payouts to the PTC investors. However, the principal is promised to the investors only on the legal final maturity date of the transaction (June 23, 2027). The transaction also entails certain trigger events for pool amortisation. A breach of any of these trigger events would result in the end of the replenishment period and the commencement of the amortisation period.

Additional or further receivables

In conventional securitisation transactions, all or the majority of the pool's collections in a particular month (including prepayments, if any) are passed on to the PTC investors on the following payout date as per the cash flow waterfall. However, in the present structure, during the replenishment period of 12 months post the transaction date, only the PTC interest will be serviced and the balance pool cash flows will be utilised to acquire further receivables to maintain the asset cover. Principal collections including part prepayment/foreclosures will be used to purchase these additional receivables from the originator during the replenishment period. The contracts in the fresh pools would be required to meet certain pre-specified eligibility criteria.

Key eligibility criteria for the receivables

The eligibility criteria shall be met:

- On the commencement of the transaction
- At each replenishment event for all the new assets being added as well as for the updated pool (as applicable)

The following key eligibility criteria will have to be met:

- Weighted average IRR of replenished pool should not be less than weighted average IRR of initial pool; and
- Maturity date of the underlying loans of the replenished pool should not be beyond February 28, 2027.
- No facility is/shall be overdue as on the respective pool cut-off date for the initial pool/additional receivables to be purchased during the replenishment period.

Replenishment trigger

- Utilization of cash collateral to service Series A1 interest
- Rating downgrade of originator/servicer by 2 notches from date of transaction
- 30+ PAR on the outstanding pool breaches 10%
- Satisfaction of conditions that will trigger Turbo Amortization Trigger

A potential concern pertaining to a replenishment structure is the uncertainty regarding the exact composition of the additional receivables. However, the specified eligibility criteria ensure reasonable credit quality of the assigned pool during the replenishment period through favourable seasoning, credit profile of the borrower and low delinquency levels. The performance of the initial and the follow-on pools would also remain exposed to macroeconomic shocks/business disruptions, if any.

Past rated pools performance: Overall, ICRA has rated four PTC backed by pools originated by BFL, of which three pools have matured and ratings have been withdrawn. The performance of the matured pools at loss-cum-90+ days past due (dpd) has remained sub-2% as of the last payout month.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the shortfall in collections are arrived at after taking into account the past performance of the originator's portfolio and the rated pools as well as the characteristics of the current pool being evaluated. However, since the pool in the current transaction would be revised during the replenishment period, the characteristics of the pool would change unlike other PTC transactions where the pool is static. ICRA has used the defined eligibility criteria to arrive at a 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.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the current pool and the follow-on pools is estimated at 5.0-6.0% with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 2.4-9.0% per annum.

Liquidity position: Strong

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. The amortisation of PTCs will start after occurrence of trigger event or end of replenishing period (12 months) and the collected principal will be passed on to the investor on expected basis. Additionally, a cash collateral of 5.00% of initial pool principal is also available in the transaction. The pool collections and the credit enhancement are expected to be comfortable to meet the promised payouts to the investors.

Rating sensitivities

Positive factors – Since the principal amortisation would begin on crystallization of final pool, the rating is unlikely to be upgraded till the final pool is crystalized. The rating could be upgraded basis healthy collections observed in final crystalized pool leading to buildup of credit enhancement cover over the rated PTCs.

Negative factors – The rating could be downgraded on occurrence of trigger event, non-adherence to the key transaction terms and deterioration in performance of follow-on pools such that delinquencies during the amortisation period are higher-than-expected. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating actions are 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

BFL is a Nagpur-based public, unlisted, deposit-taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). Itis promoted by Mr. M. G. Jawanjar and was incorporated in 1990. Berar primarily finances two-wheelers (2Ws). It also provides used car loans, commercial vehicle loans, agriculture equipment loans and personal loans.

While its operations are concentrated in Maharashtra, BFL has, over the years, expanded to five other states, i.e. Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka. As on September 30, 2023, the company's loan book was Rs. 937crore. Berar reported a profit after tax (PAT) of Rs. 17 crore on operating income of Rs. 118 crore in FY2023 vis-à-vis Rs. 17crore and Rs. 85 crore, respectively in FY2022. As on September30, 2023, the company reported a PAT of Rs. 12crore on operating income of Rs. 69 crore.

Key financial indicators (audited)

	FY2022	FY2023	H1FY2024*
Total income	176	218	116
Profit after tax	17	17	12
Loan book	832	947	937
Gross stage 3	3.1%	4.7%	5.6%
Net stage 3	2.2%	3.0%	3.6%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Current Rating (FY2024)					Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Dec 22, 2023	Oct 06, 2023	-	-	-
1	**Knight 09 2023**	Series A1 PTC	14.26	14.26	**[ICRA]A-(SO)**	**Provisional [ICRA]A-(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	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
Knight 09 2023	Series A1 PTC	September 2023	11.85%	June 2027	14.26	[ICRA]A-(SO)

*Source: Company; * Scheduled maturity date at transaction initiation; may change on account of prepayments*

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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