

February 01, 2024

Kogta Financial India Limited: Provisional [ICRA]AA(SO) assigned to Series A1 SN backed by vehicle loan receivables issued by Bali 01 2024

Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|--------------|--------------|----------------------------------|------------------------------------|
| Bali 01 2024 | Series A1 SN | 119.57 | 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 |
|--|--|

Rationale

ICRA has assigned a provisional [ICRA]AA(SO) rating to the Series A1 securitisation notes (SNs) issued under a securitisation transaction originated by Kogta Financial India Limited (Kogta). The SNs are backed by a pool of Rs. 131.39-crore (pool principal; receivables of Rs. 165.65 crore) 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 5.00% of the total pool principal to be provided by the originator, (ii) subordination of 9.00% of the total pool principal for Series A1 SN, and (iii) the excess interest spread (EIS) of 15.33% for Series A1 SN, as well as 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 over-collateralisation, EIS and CC
- Absence of overdue contracts as on cut-off date
- More than 66% of the contracts in the initial pool had a credit bureau score of at least 700 at the time of onboarding

Credit challenges

- High geographical concentration with top 3 regions comprising ~72% of the initial pool principal
- Performance of the pool could remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to Series A1 SN at the predetermined interest rate on the principal outstanding. The principal repayment to Series A1 SN is promised on each payout date only to the extent of 91% of the billed pool principal amount for each month. The balance 9% is expected to be paid monthly but is not promised.

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, though a portion of the monthly principal payout (9%) 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 expected scheduled payments, as given above, will be paid to the equity tranche as interest payment on a monthly basis. The first line of support for Series A1 SN in the transaction is in the form of a subordination of 9.00% of the initial pool principal. Further support is available in the form of the EIS of 15.33% of the initial pool principal. A CC of 5.00% of the initial pool principal to be 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 same.

The pool consists of loans with a moderate weighted average seasoning of 14.0 months and no overdue contracts as on the pool cut-off date. The initial pool had a mix of used and new vehicle loans in the ratio of 89:11. The pool consisted of car (22.4%); commercial vehicles (CVs; 48.5%), construction equipment (2.3%), and tractor (26.8%) loans as on the cut-off date. The weighted average loan-to-value (LTV) of the pool was 78.3% as on the cut-off date. The pool is also geographically concentrated with the top state, i.e. Gujarat, accounting for 26.3% of the initial pool principal. ICRA notes that the performance of the pool would be exposed to macro-economic shocks/business disruptions.

Performance of past rated pools: ICRA has rated 12 securitisation transactions with the underlying receivables originated by Kogta, of which 11 have matured. The matured pools had performed well with no instance of CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the 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 coefficient 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 considered Kogta's credit quality experience and ICRA's expectation of the 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, overdues, LTV, initial loan tenure and geographical distribution separately for each asset class in the pool, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 4.0-5.0%, with certain variability around it. The variability is based on the static pool analysis of Kogta's portfolio for each asset class in the pool as well as ICRA's observation on the performance of the respective asset class for other originators. ICRA's estimation of the variability also considers Kogta's relatively moderate track record. The average prepayment rate for the underlying pool is estimated to be in the range of 4.8% to 18.0% per annum.

Liquidity position: Strong

The liquidity for Series A1 SN is strong after factoring in the CE available for meeting the promised payouts to the investor. The total CE would be 5.25 times the estimated loss in the pool.

Rating sensitivities

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

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 CE utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of Kogta's vehicle loan portfolio till September 2023, 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 | Rating Methodology for Securitisation Transactions |
| 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 final 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 rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

Kogta Financial India Limited, incorporated in 1996, is a non-banking financial company, which primarily finances new and used commercial vehicles, multi-utility vehicles, cars, and tractors. It also provides micro, small and medium enterprise (MSME) loans and loan against property (LAP). The Jaipur-based company operates through a network of 206 branches (as on September 30, 2023) across Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Delhi NCR, Uttar Pradesh and Punjab & Haryana.

The company's assets under management (AUM) stood at Rs. 3,971 crore as on September 30, 2023 compared to Rs. 3,396 crore as on March 31, 2023 (Rs. 2,183 crore March 31, 2022). While the used vehicle financing segment accounted for 70% of the AUM as on September 30, 2023, the new vehicle financing segment's share stood at 11% with LAP/MSME loans accounting for 20%. Rajasthan accounted for 34% of the AUM as on June 30, 2023.

After the equity infusion in May 2022, the promoter group, viz. the Kogta family, has a 31.7% equity stake (including warrants) in the company on a fully-diluted basis. Other stakeholders include Morgan Stanley Private Equity Asia (23.2%), Creador Advisors India LLP (17.2%), Multiples Private Equity (14.3%) and Javelin Investments (9%).

The company's net worth stood at Rs. 1,134.8 crore as on March 31, 2023 compared to Rs. 651.0 crore as on March 31, 2022. The gross and net non-performing advances (NPAs) stood at 3.3% and 1.8%, respectively, as on March 31, 2023 compared to 3.6% and 2.5%, respectively, as on March 31, 2022. Kogta had a net worth of Rs. 1,190 crore as on September 30, 2023. The gross and net NPAs stood at 3.0% and 1.6%, respectively, as on September 30, 2023.

Key financial indicators (audited)

| Kogta Financial India Limited | FY2021 | FY2022 | FY2023 |
|-------------------------------|--------|--------|--------|
| Total income | 245 | 360 | 522 |
| PAT | 45 | 52 | 85 |
| Assets under management (AUM) | 1,496 | 2,183 | 3,396 |
| Gross NPA | 3.3% | 3.6% | 3.3% |
| Net NPA | 2.4% | 2.5% | 1.8% |

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 | Instrument | Current Rating (FY2024) | | Chronology of Rating History for the Past 3 Years | | | |
|--------------|--------------|----------------------------------|--------------------------------|---|-------------------------|-------------------------|-------------------------|
| | | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | Feb 01, 2024* | - | - | - |
| Bali 01 2024 | Series A1 SN | 119.57 | 119.57 | Provisional [ICRA]AA(SO) | - | - | - |

*Provisional rating assigned

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 Type | Date of Issuance / Sanction | Coupon Rate | Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|---------------------|-----------------|--------------------------------|----------------|-------------------|-----------------------------|-----------------------------|
| Bali 01 2024 | Series A1 SN | January 2024 | 9.20% | June 2028 | 119.57 | Provisional [ICRA]AA(SO) |

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

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

Himanshi Doshi

+91 22 6114 3410

himanshi.doshi@icraindia.com

Ekta Baheti

+91 22 6114 3423

ekta.baheti@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Mrugesh Trivedi

+91 22 6114 3436

mrugesh.trivedi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

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



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.