

March 05, 2024

Sarvagram Fincare Private Limited: Provisional [ICRA]A(SO) assigned to Series A1 SN backed by a pool of secured loan receivables issued by RACHAEL TRUST 02 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
RACHAEL TRUST 02 2024	Series A1 SN	55.30	Provisional [ICRA]A(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 rating to Series A1 SN issued under a securitisation transaction originated by Sarvagram Fincare Private Limited {SFPL/originator; rated [ICRA]BBB (Stable)}. The securitisation notes (SNs) are backed by a pool of Rs. 60.11-crore (principal amount; receivables of Rs. 96.94 crore) secured loan receivables originated by SFPL.

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 7.00% of the initial pool principal to be provided by the originator, (ii) principal subordination of 8.00% of the initial pool principal (including the principal payable to the equity tranche) for Series A1 SN, and (iii) excess interest spread (EIS) of 35.80% of the initial pool principal for Series A1 SN in the structure; 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 credit enhancement in the form of excess interest spread (EIS), over-collateralisation and cash collateral (CC)
- No overdue contracts as on the cut-off date
- Average seasoning of ~15 months and average pre-securitisation amortisation of ~14% as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing around 98% of the pool principal as on the cutoff date
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower
- Limited vintage of the originators

Description of key rating drivers highlighted above

As per the transaction structure, the monthly promised cash flows for Series A1 SN will comprise the scheduled principal amount (92.00% of the billed pool principal) and the interest payment to Series A1 SN at the predetermined interest rate on the principal outstanding. The balance principal billed is expected to be paid on a monthly basis but is not promised. 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 to the extent of 8.00% of the billed pool principal. The expected principal portion is not promised and any shortfall in making the same to Series A1 SN would be carried forward to the subsequent payout. Any prepayment amount would be used for the payment of Series A1 SN.

The first line of support for Series A1 SN in the transaction is in the form of a principal subordination of 8.00% of the initial pool

principal (includes the principal payable to the equity tranche). Further credit support is available in the form of an EIS of 35.80% of the initial pool principal for Series A1 SN. After meeting the promised and expected payouts, the EIS will be passed on to the originator on a monthly basis. However, on the occurrence of predefined trigger events, the residual EIS every month shall be utilised for accelerating the principal payment due to Series A1 SN. A CC of 7.00% of the initial pool principal, to be provided by SFPL, would act as further CE in the transaction. In the event of a shortfall in meeting the promised SN payouts during any month, the trustee will utilise the CC to meet the same.

The pool consists of secured (100% of the initial pool principal) loan receivables. There were no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is 15.3 months¹ with pre-securitisation amortisation of 13.8% as on the cut-off date. The pool has high geographical concentration with the top 3 states (Gujarat, Maharashtra and Karnataka) contributing 97.9% to the initial pool principal amount. At the district level, the top district accounted for 13.7% of the initial pool principal amount while the top 10 districts accounted for 81.2%. The performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities, which may impact the income-generating capability of the borrower.

Past rated pool performance: Till date, ICRA has rated one standalone pass-through certificate (PTC) transaction of SFPL. The performance of the live pool, as of the February 2024 payout month, has shown a monthly collection efficiency of 99.6% with nil CC utilisation.

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 taking into account 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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 5.00-6.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 4.8-18.0% (with an average of 12.0%) per annum.

Liquidity position: Strong

The liquidity for the SN instruments in the transaction is strong after factoring in the CE available to meet the promised payouts to the investors. The total CE would be 6.0 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the CE would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher CE utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer could also exert pressure on the rating.

¹ Basis number of instalments as shared by the originator

Analytical approach

The rating action is based on the analysis of the performance of SFPL's portfolio till December 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

Sarvagaram Fincare Private Limited (SFPL) is a non-deposit taking non-banking financial company (NBFC) that focuses on providing credit products such as farm loans, business loans, housing loans, personal/consumer durable loans, and gold loans to households with multiple sources of income in rural India. It was incorporated in November 2018 and the corporate office is in Mumbai. SFPL is a 79.7% subsidiary of Sarvagaram Solutions Private Limited (SSPL), with the founders – Mr. Utpal Isser and Mr. Sameer Mishra – holding the balance. SSPL provides non-lending financial services such as farm mechanisation solutions, insurance distribution, etc, in the same geographies catered to by SFPL through a network of individual franchisees (Sarvamitras). SSPL also provides a digital platform with technology solutions to SFPL.

The Group reported a net loss of Rs. 7.7 crore in H1 FY2024 on total managed assets² of Rs. 769.5 crore while it reported a net loss of Rs. 34.1 crore on total managed assets of Rs. 744.5 crore in FY2023. On a standalone basis, SFPL reported a net profit of Rs. 1.3 crore on total managed assets of Rs. 666.0 crore in H1 FY2024 while it reported a net loss of Rs. 19.2 crore on total managed assets of Rs. 491.5 crore in FY2023.

² Managed assets = Total assets (net of goodwill) + Total off-book portfolio

Key financial indicators

SSPL (consolidated)	FY2022	FY2023	H1 FY2024*
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	25.8	79.1	68.4
Profit after tax	(29.6)	(34.1)	(7.7)
Total managed assets	236.8	744.5	769.5
Return on managed assets	-17.7%	-6.9%	-2.0%
Managed gearing (times)	2.5	1.3	1.5

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

*Provisional numbers

SFPL (standalone)	FY2022	FY2023	H1 FY2024*
Accounting as per	IGAAP	IGAAP	IGAAP
Total Income	22.0	70.3	62.0
Profit after tax	(21.2)	(19.2)	1.3
Total managed assets	214.1	491.5	666.0
Return on managed assets	-15.4%	-5.4%	0.4%
Managed gearing (times)	3.0	5.9	2.1
Gross NPA / Gross Stage 3 #	1.1%	1.0%	1.6%
CRAR	28.0%	18.8%	36.3%

Source: Company, ICRA Research; #Gross non-performing advances (GNPAs) are based on 180+ days past due (dpd) for FY2022 and FY2023 and 90+ dpd for H1 FY2024; All ratios as per ICRA's calculations; Amount in Rs. crore

* Provisional numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
	Instrument	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
				Mar 05, 2024	-	-	-
RACHAEL TRUST 02 2024	Series A1 SN	55.30	55.30	Provisional [ICRA]A(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 Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
RACHAEL TRUST 02 2024	Series A1 SN	January 2024	11.40%	August 2030	55.30	Provisional [ICRA]A(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

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sumit Pramanik

+91 22 6114 3462

sumit.pramanik@icraindia.com

Rushabh Gohel

+91 22 6114 3450

rushabh.gohel@icraindia.com

Pratik Vora

+91 22 6114 3438

pratik.vora@icraindia.com

RELATIONSHIP CONTACT

Mr. 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.