July 29, 2024

Berar Finance Limited: Provisional [ICRA]A-(SO) assigned to Series A1 PTC backed by two-wheeler loan receivables issued by Hulk 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Hulk 2024	Series A1 PTC	26.37	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

The pass-through certificates (PTCs) are backed by a pool of two-wheeler loan receivables originated by Berar Finance Limited {BFL/Originator; rated [ICRA]BBB(Stable)} with an aggregate principal outstanding of Rs. 29.30-crore (underlying pool receivables of Rs. 34.38 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts along with the eligibility criteria for follow-on pools, the credit enhancement available in the structure as well as the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

As per the transaction structure, the tenure of the pool shall be divided into two periods – replenishment period and amortisation period.

Replenishment period

The replenishment period will be for 15 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 balance pool collections will be used by the trust to purchase fresh loan receivables as per the selection criteria such that the pool remains unchanged. If there is any shortfall in assigning eligible contracts, the extent of difference between principal repayment of the pool and replenishment done for the month shall be used for amortising the PTC. Any residual amount will flow back to the originator. The transaction also entails certain trigger events for early amortisation. A breach of any of these trigger events would lead to the end of the replenishment period and the start of the amortisation period. If a trigger event occurs at any time during the replenishment period, then the tenure of the PTCs shall be reduced and be co-terminus with the remaining tenure of the pool of receivables assigned to the trust.

Amortisation period

Post the replenishment period, the residual pool collections will be utilised to repay Series A1 PTC. The monthly cash flow schedule will comprise of the promised interest payout for Series A1 PTC. The principal for Series A1 PTC is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal, amounting to Rs. 1.46 crore, to be provided by the Originator, (ii) principal subordination of 10.00% of the initial pool principal for Series A1 PTC and (iii) the excess interest spread (EIS) in the structure.

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 2% than weighted average IRR of the initial pool.
- Maturity date of the underlying loans of the replenished pool should not be beyond December 31, 2027.
- No incremental loans from Karnataka and Telangana unless seasoning of the loans is greater than 6 months
- 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.

Trigger events for early amortisation

On the occurrence of any of the following trigger events, Replenishment Period will end immediately with no further loans/ receivables being purchased and the PTCs will move to the Amortisation Period.

- Utilisation of cash collateral to service Series A1 PTC interest
- Rating downgrade of Originator/Servicer (BFL) by 2 notches from date of transaction
- 30+ PAR on the outstanding pool breaches 10%
- Satisfaction of conditions that will trigger amortisation of PTCs along with EIS being used for prepaying PTCs
    - PAR 90 of the pool exceeds Rs 1.46 Crs.
    - Cumulative liquidity mismatch in any of the standard buckets of the Servicer
    - Capital Adequacy Ratio of the Servicer falls below 15%
    - Net Non-Performing Loans of the Servicer exceeds 5%

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The current pool is granular and basis the eligibility criteria the follow-on pools are also expected to be granular, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The initial pool has no overdue contracts as on pool cut-off date. Further any follow-on pools would also not include any overdue contracts on the date of assignment to trust which is a credit positive.

Credit challenges

Moderate pool selection criteria: A potential concern pertaining to a replenishing structure is the uncertainty regarding the exact composition of the additional receivables. While the current transaction has a specified eligibility criteria the follow-on pools may have a lower seasoning, lower interest rate contracts, contracts from weaker geographies and moderate share of lower bureau score contracts. A higher presence of lower interest rates contracts would impact the excess interest spread adversely which acts as a credit enhancement in the structure.

Risks associated with lending business: The performance of both the initial and the follow-on pools would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation 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 assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific 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. The resulting collections from the current pool and follow on pools, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current transaction, ICRA has estimated the shortfall in the principal of the pool crystalised at the end of replenishment period at 6.00% at the end of its tenure with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 2.4% to 9.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Liquidity position: Strong

The liquidity for Series A1 PTC is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~3.25 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Since the principal amortisation would begin on crystallisation of final pool, the rating is unlikely to be upgraded till the final pool is crystalised. The rating could be upgraded basis healthy collections observed in final crystalised pool leading to the build-up 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 (BFL) could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of BFL's portfolio till March 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement 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. Auditor's 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

Berar Finance Limited (Berar) is a Nagpur-based public, unlisted, deposit-taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). It is promoted by Mr. M. G. Jawanjar and was incorporated in 1990. Berar primarily finances two-wheelers (2Ws). It also provides two- wheeler refinancing, personal loan and secured MSME loans.

While Its operations are concentrated in Maharashtra, Berar has, over the years expanded to five other states, i.e. Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka. As on March 31, 2024, the company's loan book was Rs. 1,124 crore and reported a PAT of Rs. 22 crore on total income of Rs. 252 crore.

Key financial indicators (audited)

BFL	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	175.60	217.96	251.81
Profit after tax	17.42	17.08	22.18
Assets under Management (AUM)	850.82	964.33	1,124.11
Gross Stage 3	3.05%	4.67%	4.56%
CRAR	28.84%	26.33%	24.95%

Source: Company data, ICRA Research

Note: All calculations and ratios are as per 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

Sr. No.	Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Current Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					Jul 29, 2024	-	-	-
1	**Hulk 2024**	Series A1 PTC	26.37	26.37	**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 (p.a.p.m.)	Maturity Date	Current Amount Rated (Rs. crore)	Current Rating
Hulk 2024	Series A1 PTC	July 19, 2024	11.25%	January 23, 2028	26.37	Provisional [ICRA]A-(SO)

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.

For more information, visit www.icra.in

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