December 03, 2024

Farmart Service Private Limited: Rating confirmed as final for PTCs issued under a trade receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
INVOICEX 4 TRUST	Series A1 PTC	11.70	[ICRA]A2(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

ICRA had assigned provisional ratings to the pass-through certificates (PTC) issued by INVOICEX 4 TRUST under a securitisation transaction originated by Farmart Service Private Limited (Farmart/Originator). The PTCs are backed by a pool of trade receivables arising from the invoices amounting to Rs. 15.00 crore.

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 have now been confirmed as final.

Transaction structure

The payment structure is timely interest and ultimate principal (TIUP), wherein the interest is promised on each payout date while the principal is promised on the final maturity date, which is at the end of the 12th month from the PTC issuance date.

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 around eight months (37 weeks) from the commencement date of the transaction. 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 additional identified receivables, as per the selection criteria. If there is any shortfall in assigning eligible contracts, the difference between the principal repayment of the pool and replenishment done for the month shall be held in the trust account and will be utilised in the subsequent month to purchase additional identified receivables.

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.

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 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. There is an additional cushion of two months between the expected maturity and legal maturity to factor in delays in payments from the Buyers[1].

[1] *The Originator has identified a set of eligible Buyers for the transaction. The Buyers rated by a credit rating agency may change but will adhere to the concentration limits while the unrated Buyers will be fixed till the final maturity date*

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the aggregate amount, i.e. Rs. 0.75 crore, provided by the Originator, and (ii) subordination of 15.31% of the aggregate amount for Series A1 PTC (the transaction has over-collateralisation of 22.01% of the initial pool of invoices, of which the scheduled PTC interest would be serviced, leading to net over-collateralisation of 15.31% for Series A1 PTC principal payouts).

Key eligibility criteria for the receivables

The eligibility criteria shall be met:

- On the commencement of the transaction for the purchase of the initial identified receivables;
- At each replenishment date of the transaction for the purchase of additional identified receivables;

The key eligibility criteria that must be met are:

- All invoices should be free from any charge and are unencumbered;
- Only fully accepted invoices (based on goods received note (GRN) and deduction report) should be included in the pool and part invoices shall not qualify for the pool;
- There are no invoices that are overdue for more than 10 days past the due date as on the cut-off date;
- No obligor has 30+ days past due (dpd) in the previous three months from the cut-off date;
- Each relevant obligor has fully repaid the entire amount of the last two trade receivables within 90 days of the due date;
- The balance tenor of the identified receivables is not more than 120 days;
- The pool of identified receivables shall comprise at least 15 Obligors at all times during the Replenishment Period;
- The minimum vintage between the Originator and each Buyer is at least three months;
- Buyer concentration must adhere to the following criteria
    - For Buyers rated A- and above, the concentration per Buyer would be a maximum of 15% and they should constitute at least 50% of the pool.
    - For non-investment grade and unrated Buyers, the concentration per Buyer would be a maximum of 4.5% and they should not constitute more than 20% of the pool.
    - For the BBB category and three pre-determined Buyers, the concentration per Buyer would be a maximum of 10% and they would constitute the balance percentage of the pool.

Trigger events for early amortisation

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

- If 15% or more of the identified receivables are overdue (unpaid for 30 days beyond the due date);
- Failure of the Originator to provide sufficient additional identified receivables during the replenishment period such that the additional identified receivables being provided are less than 75% of the accumulated amounts;
- If the Pool Cover[2] falls below 1.22 times.

Key rating drivers and their description

Credit strengths

Presence of credit enhancement in the form of over-collateralisation and CC – The first line of support for Series A1 PTC in the transaction is in the form of over-collateralisation of 22.01% of the initial pool of invoices, of which the scheduled PTC interest would be serviced, leading to net over-collateralisation of 15.31% for Series A1 PTC principal payouts. A CC of Rs. 0.75

[2] *Pool Cover = N/D; where:*

N = Sum of: (a) amount equivalent to the aggregate outstanding of all identified receivables acquired and held by the Trust on such date (that are not overdue beyond 30 days); (b) Amounts lying in/to the credit of the Collection and Payout Account that is attributable to the identified receivables and that is remaining unutilised in the Collection and Payout Account following the application of proceeds in accordance with the Waterfall Mechanism; and (c) CC

D = Amount equivalent to Series A1 PTC Subscription Amount or A1 PTC Outstanding amount, whichever is lower crore (5.00% of the initial pool value of invoices), to be provided by the Originator, would act as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC payouts, the trustee will utilise the CC to meet the same.

Established relationships between originator and buyers – The Originator has established relationships with most of the Buyers with average vintage of 18 months as on the pool cut-off date. This is also supported by the eligibility criteria for the follow-on pools, whereby the minimum vintage between the Originator and Buyer should be at least three months.

No commingling risk – As per the transaction structure, the payments from the Buyers would be received in designated escrow accounts operated by the Originator but the debit will be controlled by the trustee. Payments relating to the assigned invoices would then be passed on to the Collection and Payout Account of the PTC trust. Thus, ICRA notes that there would be no commingling of funds for the transaction with the Originator's own cash flows.

Credit challenges

Risk of delays in payments by buyers – The risk of non-payment by Buyers can be deemed to be higher on account of the underlying obligations being operational in nature vis-à-vis the obligations to the financial creditors. Nonetheless, the trust would be entitled to all the rights under the Insolvency and Bankruptcy Code, 2016, which would be a mitigant.

Moderate credit quality of buyers; high buyer concentration risk – As per the eligibility criteria, at least 50% of the receivables should be represented by Obligors with a credit rating of A- or above. However, Obligors with a credit rating of BB+ or lower (including unrated) can form up to 20% of the invoice pool. Further, the pool would remain concentrated with the top Buyer exposure capped at 15%. Thus, the transaction would remain exposed to any material disputes between the Buyer and the Originator such that the Buyer does not honour the obligated payments. However, the replenishment pool will be guided by certain selection criteria, which act as mitigants, such as no Buyer should have 30+ dpd during the previous three months, each Buyer has to fully repay the entire amount of the last two trade receivables within 90 days of the due date and at least 15 Buyers shall be there in the pool at all times during the replenishment period. Further, each invoice from the Buyers shall be a fully accepted invoice and there should be no overdues for more than 10 days past the due date as on the cut-off date to be eligible for the replenishment pool.

Originator meeting relatively small share of procurement needs of buyers – The Originator would be meeting a relatively small share of the procurement needs of some of the Buyers, given the large scale of operations of the latter. However, ICRA takes comfort from the established relationships of the Originator with most of the Buyers and the past track record of payments from the Buyers, which have been largely within the contractual terms.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses in the pool. ICRA's rating assumption for the quality of the cash flows being securitised, along with the tenure of the payments, has been considered to estimate the default probability of each underlying Buyer payment. Additionally, a certain degree of correlation is assumed in the performance of the various entities in the pool as they are in the same sector/sub-sector. ICRA has also taken note of the Originator's track record in the business. Moreover, the cash flow modelling considers the assumptions regarding the build-up of delinquency/loss and the transaction structure.

Details of key counterparties

The key counterparties in the rated transaction is as follows:

Transaction Name	INVOICEX 4 TRUST
Originator	Farmart Service Private Limited
Servicer	Farmart Service Private Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	ICICI Bank Limited
Collection and payout account bank	ICICI Bank Limited

Liquidity position: Adequate

The liquidity for the PTC instrument is adequate after factoring in the credit enhancement available to meet the promised payout to the investors.

Rating sensitivities

Positive/Negative factors – The rating is unlikely to be revised during the replenishment period. Any rating revision would depend on the performance of the underlying pool and the credit enhancement utilisation during the amortisation period. The rating would also be sensitive to the credit profile of Buyers and the track record of payments in the normal course of business. The rating could be downgraded on non-adherence to the key transaction terms envisaged at the time of providing the rating.

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 – Collateralised Debt Obligations
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the Originator

Farmart Service Private Limited (FSPL) was incorporated in December 2015 by Mr. Alekh Sanghera and Mr. Mehtab Hans and is a SaaS B2B food commerce platform serving Asia, Middle East, and Africa. It is a fully integrated digital market linkage platform for food communities. The company provides digital infrastructure, market linkages and financial capital to its network of food producers, processors and enterprises. As of May 2024, the company has built a network of around 250,000 farm aggregators, over 3.8 million farmers, and over 4000 food businesses across the globe. The company runs on an asset light model and has three main revenue verticals in the form of procurement services, export services and value-added services.

Key financial indicators

Farmart (standalone)	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Operating income (OI)	208.2	1,023.8	1,377.2
Profit after tax (PAT)	(17.5)	(46.2)	(37.3)
OPBITDA / OI	(7.4%)	(4.3%)	(2.0%)
PAT / OI	(8.4%)	(4.5%)	(2.7%)
Total debt / Tangible net worth	0.8	0.6	0.9
Total debt / OPBITDA (times)	(3.0)	(3.3)	(7.5)
Interest coverage (times)	(9.0)	(3.3)	(1.3)

Source: Company, ICRA Research; All ratios are as per ICRA's calculations
OPBITDA – Operating profit before interest, tax, depreciation and amortisation
Amount in Rs. crore

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			December 03, 2024	November 19, 2024	-	-	-
INVOICEX 4 TRUST	Series A1 PTC	11.70	**[ICRA]A2(SO)**	Provisional [ICRA]A2(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

ISIN No.	Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate (p.a.p.m)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
INE1C2X15013	**INVOICEX 4 TRUST**	Series A1 PTC	November 22, 2024	11.25%	November 18, 2025	11.70	[ICRA]A2(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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