

December 27, 2024

## Berar Finance Limited: Rating reaffirmed for PTCs issued under two-wheeler loan securitisation transaction

### Summary of rating action

Trust Name	Instrument*	Initial Amount Rated (Rs. crore)	Amount O/s after last surveillance (Rs. crore)	Current Amount Rated (Rs. crore)	Rating Action
Knight 09 2023	Series A1 PTC	14.26	NA	10.98	[ICRA]A-(SO); reaffirmed

\*Instrument details are provided in Annexure I

### 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)}. BFL is the servicer for the rated transaction.

The rating has been reaffirmed on account of the build-up of the credit enhancement cover over the future PTC payouts. The rating draws comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection levels observed in the pool till the November 2024 payout month.

### Pool performance summary

Parameter	Knight 09 2023
Payout month	November 2024
Months post securitisation	14
Pool amortisation <sup>1</sup>	20.6%
Series A1 PTC amortisation	23.0%
Cumulative collection efficiency <sup>2</sup>	97.4%
Loss-cum-30+ days past due (dpd <sup>3</sup> ; % of initial pool)	7.4%
Loss-cum-90+ dpd <sup>4</sup> (% of initial pool)	1.4%
Cumulative cash collateral (CC) utilisation	0.0%
CC available (as % of balance pool) <sup>1</sup>	6.3%
Excess interest spread (EIS <sup>5</sup> ; % of balance pool) <sup>1</sup>	7.6%
Principal subordination (% of balance pool) <sup>1</sup>	12.6%
Breakeven collection efficiency <sup>6</sup>	79.6%

<sup>1</sup> Including principal overdue amount

<sup>2</sup> (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)

<sup>3</sup> Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 30 days, as a % of Initial pool principal

<sup>4</sup> Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 90 days, as a % of Initial pool principal

<sup>5</sup> (Pool cash flows – Cash flows to PTC investors – Originator's residual share)/Pool principal outstanding

<sup>6</sup> (Balance cash flows payable to investor – CC available)/Balance pool cash flows

## Transaction structure

As per the structure, the tenure of the transaction is divided into two periods, viz. the replenishment period and the amortisation period. The replenishment period was for a period of 12 months from the transaction commencement date, which ended after the September 2024 payout. The transaction is now in the amortisation period and the first payout to Series A1 PTC was made in October 2024.

During the replenishment period, Series A1 PTC investors received only the promised interest payouts on a monthly basis. Following the interest payment, the balance pool principal collections were utilised to purchase additional loan receivables as per the eligibility criteria. Further, the PTCs were prepaid if there was a shortfall in assigning eligible contracts.

During the amortisation period, the monthly cash flow schedule comprises the promised interest payout to Series A1 PTC. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is entirely 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 the Series A1 PTC principal.

## Key rating drivers and their description

### Credit strengths

**Build-up of credit enhancement** – The rating factors in the build-up in the credit enhancement cover with the cash collateral increasing to 6.3% of the balance pool principal from 5.0% at the time of securitisation. Credit support is also available through subordination of 12.6% and EIS of 7.6% of the balance pool principal.

**Healthy pool performance** – The pool's performance has been strong with a cumulative collection efficiency of 97.4% as of the November 2024 payout month, which has resulted in lower delinquencies in the pool with the 90+ days past due (dpd) at 1.4%. The breakeven collection efficiency is significantly below the actual collections seen in the pool. Further, there have been no instances of cash collateral utilisation for the pool till date owing to the strong collection performance and the presence of EIS in the transaction.

**Servicing capability of the originator** – The company has adequate processes for the servicing of the loan accounts in the securitised pool. It has demonstrated a long track record of regular collections and recoveries across a wide geographies and multiple economic cycles.

### Credit challenges

**Risks associated with lending business** – The pool's performance 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. The resulting collections from the pool, 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 pool, which is now static following the end of the replenishment period, ICRA has estimated the shortfall in the pool principal collection during its tenure at 5.50% of the initial pool principal with certain variability around it. The average

prepayment rate for the underlying pool is modelled in the range of 2.4% to 9% 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.

## Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	Knight 09 2023
Originator	Berar Finance Limited
Servicer	Berar Finance Limited
Trustee	Catalyst Trusteeship Limited
CC bank	DCB Bank
Collection and payout account bank	ICICI Bank

## Liquidity position: Strong

The liquidity for Series A1 PTC is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is ~3 times the estimated loss in the pool for Series A1 PTC.

## Rating sensitivities

**Positive factors** – The sustained strong collection performance of the underlying pool of contracts, leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

**Negative factors** – The sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. 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 performance of the pool till the November 2024 payout month (October 2024 collection month), the present delinquency profile of the pool, the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the originator

Berar Finance Limited is a Nagpur-based public, equity unlisted, deposit-taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). The company is promoted by Mr. M. G. Jawanjar and was incorporated in 1990. BFL primarily finances two-wheelers (2Ws). It also provides used car loans, personal loans and secured micro, small and medium enterprise (MSME) loans. BFL has discontinued the used car loans segment. The company has started disbursing the secured small and medium enterprise (SME) product with a ticket size of Rs. 5-6 lakh. As on September 30, 2024 the assets under management (AUM) for this product was ~Rs. 19 crore.

While its operations are concentrated in Maharashtra, BFL has expanded to five other states over the years, i.e. Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka, and commenced operations in Odisha in FY2025. As on September 30, 2024, the company's loan book stood at Rs. 1,159 crore.

#### Key financial indicators

BFL	FY2023	FY2024	H1 FY2025*
Total income	218	252	140
Profit after tax	17	22	16
Total managed assets	1,170	1,351	1,513
Gross stage 3 assets	4.7%	4.6%	5.7%
CRAR	26.3%	25.0%	23.6%

Source: Company, ICRA Research; Amount in Rs. crore; \* Provisional

#### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

#### Rating history for past three years

S. No.	Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years				
			Initial 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
					December 27, 2024	Dec 22, 2023	Oct 06, 2023	-	-
1	Knight 09 2023	Series A1 PTC	14.26	10.98	[ICRA]A-(SO)	[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 Type	Date of Issuance	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Rating
<b>Knight 09 2023</b>	Series A1 PTC	September 29, 2023	11.85%	June 23, 2027	10.98	[ICRA]A-(SO)

Source: Company

#### Annexure II: List of entities considered for consolidated analysis

Not applicable

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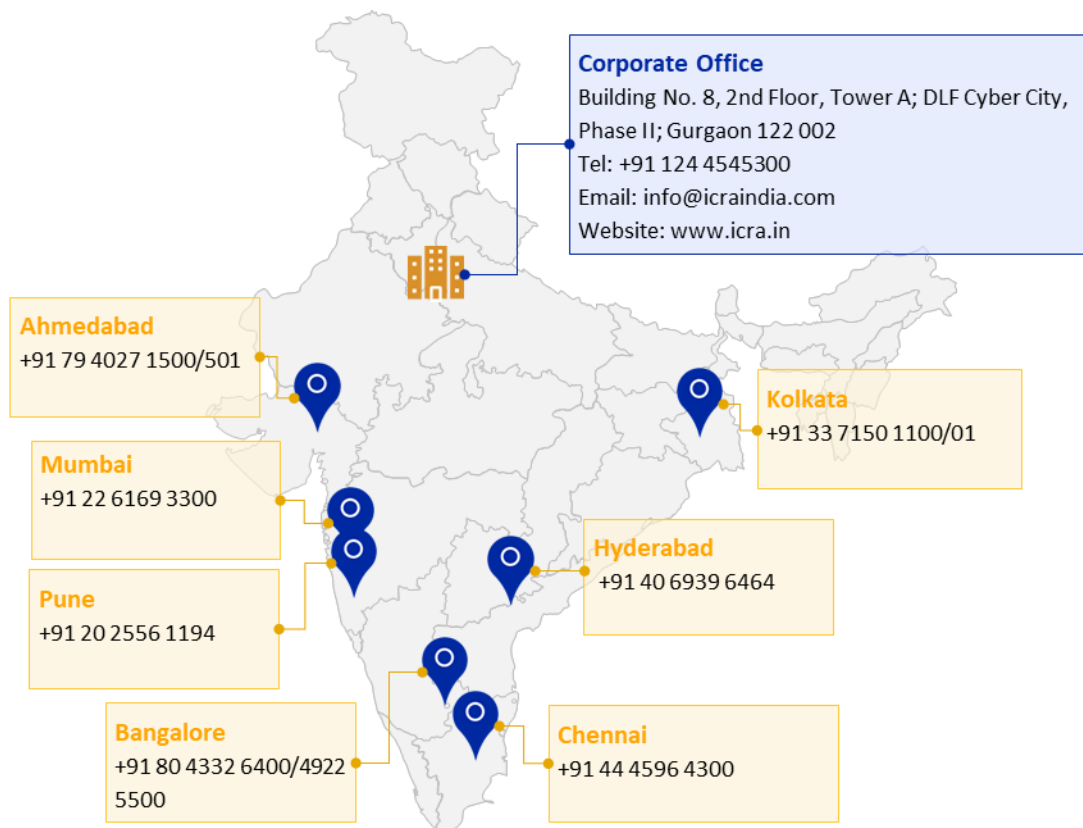


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