January 29, 2025

Arth Padarth Factors and Finance Private Limited: Provisional [ICRA]A-(SO) assigned to Series A1 PTC and Provisional [ICRA]BBB-(SO) assigned to Series B1 PTC to be issued by REST 6

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
REST 6	Series A1 PTC	15.75	Provisional [ICRA]A-(SO); Assigned
	Series B1 PTC	3.15	Provisional [ICRA]BBB-(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 trade receivables arising from the invoices discounted by Arth Padarth Factors and Finance Private Limited (AP Factors/Originator) such that the initial disbursed amount[1] would be Rs. 21.00 crore. AP Factors would also be the servicer for the transaction.

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

Transaction structure

The transaction structure is ultimate interest and ultimate principal (UIUP), wherein both interest and principal (100% of the pool principal billed) are promised on the final maturity date, which is at the end of the 21st month from the PTC issuance date. Further, the tenure of the pool shall be divided into two periods – replenishment period and amortisation period.

Replenishment period

The replenishment period will be 13.5 months from the commencement date of the transaction. During this period, the pool collections will be used by the trust to purchase additional identified receivables, as per the pool selection criteria. 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 early commencement of the amortisation period.

Amortisation period

Following the replenishment period, the pool collections will be utilised to repay Series A1 PTC and then Series B1 PTC. The interest and principal (100% of the pool principal billed) for Series A1 PTC are promised on the final maturity date. Following the redemption of Series A1 PTC, the interest and principal (100% of the pool principal billed) for Series B1 PTC are promised

[1] Disbursed amount is arrived at after discounting the financed amount of the trade receivables at a rate of 14% p.a.p.m. where financed amount would not be more than 75% of the total value of the invoices.

on the final maturity date. There is an additional cushion of seven months between the expected maturity and legal maturity to factor in delays in payments from the Buyers[2].

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial disbursed amount, i.e. Rs. 1.05 crore, to be provided by the Originator, and (ii) subordination of 25.00% of the initial disbursed amount for Series A1 PTC and 10.00% of the initial disbursed amount for Series B1 PTC.

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:

- Invoices drawn by Seller[2] on the Buyer, where the Buyer has accepted his obligation to pay on a due date
- Seller should have relationship of at least 6 months with the Buyer and billing should happen at least once in every quarter and it should be the case for the last three quarters
- Single invoice concentration of not more than 3% of the disbursed amount
- Single Seller-Buyer concentration should not comprise more than 10% of the disbursed amount
- Buyer should be rated A- (A minus) or better by a rating agency. In case of unrated subsidiaries, parent rating would be considered. International rating of subsidiaries of multi-national companies would be considered with a minimum rating of BBB-. Additionally, the pool could consist of six unrated pre-determined Buyers.
- Maximum concentration of A category and unrated Buyers would be 30% of the disbursed amount
- Buyer should not be delinquent on any other financial obligations
- There should not be any overdue invoices at the time of initial as well as subsequent assignments during the replenishment period
- Debtors should never have been in 30+ days past due (dpd) for the three months prior to the pool assignment
- The entire pool should have escrow collection from Buyers
- The pool could also include the receivables purchased from the Trade Receivables Discounting System (TReDS) platform with a predefined condition on the credit quality of the Buyer. The invoices would have to be 'confirmed' or 'accepted' and marked as 'scheduled for payment' by the Buyer with a credit rating of AAA
- No single industry concentration to be more than 30% of the disbursed amount
- The pool would include invoices such that the average financed amount would not be more than 75% of the total value of invoices
- Buyers with a rating of AA or better may be added to the list of eligible Buyers, so long as all other conditions of the portfolio eligibility criteria are met
- A chartered accountant certificate would be submitted every month, certifying compliance with the pool criteria

Key trigger events for early amortisation

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

- Utilisation of cash collateral for making interest payment in full
- Downgrade of PTCs below BBB- or equivalent short-term rating
- Downgrade of Buyer rating by two notches for 25% of the pool
- 30+ dpd on the assigned pool breaches 25% of the pool

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[2] *The Originator has identified a set of eligible Sellers and Buyers for the transaction, which may change but will adhere to the pool eligibility criteria*

- More than 15% of the pool is undeployed for 15 consecutive days

Key rating drivers and their description

Credit strengths

Strong credit profile of the Buyers whose invoices will be assigned – The Buyers are well-established and financially strong entities with domestic credit ratings of at least A category or are a part of established global conglomerates. Comfort can also be drawn from the predefined trigger events where the breach of any trigger event would lead to the early amortisation of the PTC instruments, thereby mitigating the risk of a deterioration in the credit quality of the Buyers.

Stringent predefined eligibility criteria of invoices supporting the quality of cover pool – The replenished pool will be guided by stringent eligibility criteria, ensuring that no Buyer has been 30+ days past due (dpd) at any point during three months prior to their assignment to the pool. The eligibility criteria would ensure the quality of the pool by considering both Buyers and Sellers, the maximum concentration for any single Seller-Buyer pair cannot be more than 10% of the pool, while the invoice-level concentration can be a maximum of 3% of the disbursed amount.

Presence of credit enhancement in form of cash collateral and subordination – The first line of support for Series A1 PTC in the transaction is in the form of a principal subordination of 25.00% of the eligible finance value of invoices (comprising the principal payable to Series B1 and Series C1 PTCs). Further, there is subordination of 10.00% of the eligible finance value of invoices (comprising the principal payable to Series C1 PTC) will be available for Series B1 PTC. A CC of Rs. 1.05 crore (5.00% of the disbursed amount), to be provided by the originator, would act as further credit enhancement in the transaction. Further, there is a buffer of seven months between the expected and legal maturity date built into the transaction structure.

Credit challenges

Exposure to any delays in payments by Buyers, as payment obligation from Buyers is only a contractual payment – The trust would be seen as an operational creditor of the Buyers. Therefore, the risk of non-payment by the Buyers can be deemed to be higher vis-à-vis the obligations to its financial creditors.

Relatively smaller share of Buyers' procurement requirements are met by Sellers – Although Sellers have established relationships with most Buyers, they would be meeting a relatively smaller share of the Buyers' procurement needs, given the large scale of operations of the latter.

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.

Liquidity position: Adequate

As per the transaction structure, both interest and the principal are promised to the PTC holders on the final maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be adequate to meet the promised payouts to the Series A1 PTC and Series B1 PTC investors.

Rating sensitivities

Positive/Negative factors – The ratings are unlikely to be revised during the replenishment period. Any rating revision would depend on the performance of the underlying pool and the utilisation of credit enhancement during the amortisation period. Ratings could also be under pressure if sustained delays are observed in payments to Sellers from Buyers in normal course of business.

Analytical approach

The rating action is based on the legal structure of the transaction and factors in the payment mechanism along with the credit profile of the Buyers.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – Collateralised Debt Obligations
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. Power of Attorney
4. Legal opinion
5. Trustee letter
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

Arth Padarth Factors and Finance Private Limited (AP Factors) is involved in factoring and supply chain finance, supporting micro, small and medium enterprises (MSMEs) in managing their receivables and working capital cycles through receivables/payables and supply chain financing solutions. It is registered as a non-deposit taking, factoring non-banking financial company (NBFC-ND Factor). It carries on the factoring business, i.e. the business of acquisition by way of the assignment of receivables of the assignor for consideration for the purpose of collection of such receivables or for financing/purchasing with or without recourse against such assignment. This includes domestic factoring, supply chain finance for vendors and dealers, collection and dunning services, platform-based invoice discounting services for anchor running vendor and dealer finance programmes with various financial institutions. It also participates as an NBFC Factor on the Trade Receivables Discounting System (TReDS) platform for facilitating the financing/discounting of the trade receivables of MSMEs.

Key financial indicators

As per Ind-AS	FY2023	FY2024	H1 FY2025
	Audited	Audited	Provisional
Total income	0.58	2.17	1.37
Profit after tax (PAT)	(1.78)	(0.75)	(0.33)
Gross loan portfolio	4.00	6.54	12.49
Gross stage 3	0.0%	0.0%	0.0%
Net stage 3	0.0%	0.0%	0.0%

Source: Company, ICRA Research; All ratios are 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	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
	Instrument	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			Jan 29, 2025	-	-	-
REST 6	Series A1 PTC	15.75	**Provisional [ICRA]A-(SO)**	-	-	-
	Series B1 PTC	3.15	**Provisional [ICRA]BBB-(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately complex
Series B1 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 / Sanction	Coupon Rate (p.a.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
REST 6	Series A1 PTC	To be issued	11.60%	21 months post issuance	15.75	Provisional [ICRA]A-(SO)
	Series B1 PTC	To be issued	12.88%	21 months post issuance	3.15	Provisional [ICRA]BBB-(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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