June 23, 2025

Berar Finance Limited: Provisional [ICRA]BBB+(SO) assigned to PTCs backed by two-wheeler loan receivables issued by Norton 06 2025

Summary of rating action

Trust name	Instrument*	Current rated amount (Rs. crore)	Rating action
Norton 06 2025	Series A1 PTC	16.53	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 two-wheeler loan receivables originated by Berar Finance Limited {BFL/Originator; rated [ICRA]BBB (Stable)} with an aggregate principal outstanding of Rs. 18.17 crore (underlying pool receivables of Rs. 22.03 crore). BFL will also be the servicer for the rated transaction.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts 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 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 13 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. The balance pool collections will be used by the trust to purchase fresh loan receivables as per the selection criteria such that the pool principal outstanding does not exceed initial pool principal. 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 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 any time during the replenishment period, then the tenure of the PTCs shall be reduced and will be co-terminus with the remaining tenure of the pool of receivables assigned to the trust. After the completion of the replenishment period, the transaction shall follow the amortisation waterfall.

Amortisation period

Following 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. 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 4.50% of the initial pool principal, amounting to Rs. 0.82 crore, to be provided by the Originator, (ii) principal subordination of 9.00% (including equity tranche of 6.00% of the pool principal) for Series A1 PTC, and (iii) the EIS of 8.30% (for the amortisation period) of the pool principal in the structure.

Early amortisation trigger events

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.

- Follow-on receivables provided are less than 90% of the accumulated amount on any payout date
- The collection efficiency falls below 90% for two consecutive months
- Seller's event of default
- Rating of the servicer/Seller falls by one notch or more
- The rating of the Series A1 PTC falls by one notch or more
- More than 5.0% of the underlying pool has portfolio at risk (PAR) >90
- Series A1 PTC outstanding is more than the original ratio (91.00%) of the principal outstanding value of all the underlying loans in the outstanding pool that are current
- Utilisation of CC

Trigger events for early (turbo) amortisation

In the event that the following conditions are met, the payment available to the residuary beneficiary shall not be made and will instead be used to prepay the Series A1 PTCs till its full redemption:

- If the PAR 90 of the pool exceeds 5.00% of the initial pool principal
- If the rating of the Series A1 PTC falls by one notch or more
- If the rating of the Servicer falls below BBB

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 during the replenishment period, 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 a part of the losses in the pool and provide support in meeting the PTC payouts.

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

Servicing capability of BFL – BFL has adequate processes for the servicing of the loan accounts in the securitised pool. It has a long track record of regular collections and recoveries across a wide geography and multiple economic cycles.

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 structure has specified eligibility criteria, the follow-on pools may have lower seasoning, lower interest rate contracts, contracts from weaker geographies and a moderate share of contracts with lower bureau scores. The higher presence of lower interest rate contracts would adversely impact the EIS, which acts as credit enhancement in the structure.

Risks associated with lending business – The performance of the initial and 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 the replenishment period at 5.00% 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 ~3.50 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Since the principal amortisation would begin on the crystallisation of the final pool, the rating is unlikely to be upgraded till the final pool is crystallised. The rating could be upgraded on the basis of the healthy collections observed in the final crystallised pool, leading to the buildup of the credit enhancement cover over the rated PTCs.

Negative factors – The rating could be downgraded on the occurrence of trigger events, non-adherence to the key transaction terms and deterioration in the performance of the follow-on pools, leading to higher-than-expected delinquencies during the amortisation period. Weakening in the credit profile of the servicer 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 2025, 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	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 (BFL) 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 personal loans and secured micro, small and medium enterprise (MSME) loans. BFL has discontinued the used car loans segment. The company has started disbursing secured small and medium-sized enterprise (SME) products with a ticket size of Rs. 5-6 lakh. As on March 31, 2025, the assets under management (AUM) in this product segment stood at ~Rs. 35 crore.

While its operations are concentrated in Maharashtra, BFL has expanded to five other states, i.e. Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka, and it commenced operations in Odisha in FY2025. As on March 31, 2025, the company's loan book was Rs. 1,386 crore.

Key financial indicators (audited)

BFL	FY2023	FY2024	FY2025
Total income	218	252	295
Profit after tax	17	22	32
Total managed assets	1,170	1,351	1,625
Gross stage 3	4.7%	4.6%	4.4%
CRAR	26.3%	25.0%	22.3%

Source: Company data; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. no.	Trust name	Current rating (FY2026)			Chronology of rating history for the past 3 years		
		Instrument	Amount rated (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
				June 23, 2025	-	-	-
1	**Norton 06 2025**	Series A1 PTC	16.53	**Provisional [ICRA]BBB+(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
Norton 06 2025	Series A1 PTC	June 17, 2025	11.20%	December 18, 2028	16.53	Provisional [ICRA]BBB+(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Manushree Saggar
+91 22 6114 3440
manushrees@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Himanshi Doshi
+91 22 6114 3410
himanshi.doshi@icraindia.com

Vishal Oza
+91 22 6114 3472
vishal.oza2@icraindia.com

Sheetal Nayak
+91 22 6114 3411
sheetal.nayak@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6169 3304
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