September 02, 2025

Berar Finance Limited: Provisional [ICRA]A+(SO) assigned to Series A1 PTC backed by two-wheeler loan receivables issued by DRIFT 08 2025

Summary of rating action

Trust name	Instrument*	Current rated amount (Rs. crore)	Rating action
DRIFT 08 2025	Series A1 PTC	19.23	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. 22.11 crore (underlying pool receivables of Rs. 26.28 crore). BFL would be acting as the servicer for the rated transaction.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The 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 monthly cash flow schedule comprises the promised interest payout. The principal 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.

However, if a predefined trigger event occurs, the entire residual EIS every month shall be utilised for accelerating the principal payment due to Series A1 PTC. The event is triggered on the breach on any of the following conditions, i.e. (i) portfolio at risk (PAR) 90 of the pool exceeds 5.00%, (ii) cumulative collection efficiency of the pool is less than 90% for two consecutive months, (iii) BFL's rating falls below BBB, or (iv) the rating of any securitisation transaction in which BFL is the Originator is downgraded by one notch or more.

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. 1.11 crore, to be provided by the Originator, (ii) subordination of 13.00% of the initial pool principal for Series A1 PTC (including equity tranche of 4.00%), and (iii) the EIS of 12.22% of the initial pool principal for Series A1 PTC.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The current pool is granular, consisting of 3,882 contracts with the top 10 contracts forming less than 0.6% of the pool principal, 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 of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, all the contracts in the pool have never been delinquent after loan disbursement, reflecting a relatively better credit profile of the borrowers, which is a credit positive.

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

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Maharashtra, Telangana and Chhattisgarh, contributing ~78% to the initial pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Exposure to interest rate risk – The pool has contracts with fixed interest rates while the PTC yield is floating (linked to State Bank of India's 3-month MCLR[1] with quarterly reset). Hence, the transaction is exposed to interest rate risk and any adverse movement in the benchmark yield is likely to reduce the EIS available in the transaction.

Risks associated with lending business - The performance of the pool 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 based on 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, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.50% 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.

[1] *Marginal cost of funds-based lending rate*

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 ~5.50 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the credit enhancement cover for the remaining payouts.

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), 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 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 June 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). Promoted by Mr. M. G. Jawanjar, the company was incorporated in 1990. BFL primarily finances two-wheelers and also provides personal loans and secured micro, small and medium enterprise (MSME) loans. It has discontinued used car loan segment. The company has started disbursing its secured small and medium enterprises (SME) product with a ticket size of Rs. 5-6 lakh and the assets under management (AUM) for this product stood at ~Rs. 44 crore as on June 30, 2025.

While its operations are concentrated in Maharashtra, BFL has a presence in five other states, i.e., Chhattisgarh, Madhya Pradesh, Telangana, Gujarat and Karnataka, and commenced operations in Odisha in FY2025. As on June 30, 2025, the company's loan book was Rs. 1,416 crore.

Key financial indicators (audited)

BFL	FY2024	FY2025	Q1 FY2026*
Total income	252	295	81
Profit after tax	22	32	6
Total managed assets	1,351	1,625	1,655
Gross stage 3 assets	4.6%	4.4%	4.5%
CRAR	25.0%	22.3%	21.8%

*Source: Company, ICRA Research; All calculations and ratios are as per 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

Trust name	Current rating (FY2026)			Chronology of rating history for the past 3 years		
	Instrument	Current amount rated (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
			September 02, 2025	-	-	-
DRIFT 08 2025	Series A1 PTC	19.23	**Provisional [ICRA]A+(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Series A1 PTC	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
DRIFT 08 2025	Series A1 PTC	August 29, 2025	10.05%	February 23, 2029	19.23	Provisional [ICRA]A+(SO)

*Source: Company; * Floating, linked to SBI's MCLR-3M (8.30%) plus a spread of 175 bps; to be reset quarterly with a floor and cap of 25 bps*

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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