April 26, 2023

Origo Commodities India Pvt. Ltd.: Provisional [ICRA]A1(SO) assigned to PTCs issued under securitisation transaction backed by negotiable warehouse receipts/storage receipts

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Origo Agro 04 2023	Series A PTCs	17.50	Provisional [ICRA]A1(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

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Origo Commodities India Pvt. Ltd. {OCIPL; rated [ICRA]A4+}. The PTCs are backed by receivables from a Rs. 25.00-crore pool of negotiable warehouse receipts (NWRs)/storage receipts (SRs) with the underlying commodities as collateral.

The provisional rating is based on the strength of the cash flows expected to be received in the trust account and the credit enhancement available in the form of over-collateralisation of 30.00% of the pool amount for the Series A PTCs, as well as the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure, review by ICRA of the documentation pertaining to the transaction and the furnishing of a legal opinion on the transaction to ICRA by OCIPL.

Key rating drivers

Credit strengths

- Presence of over-collateralisation provides significant cushion against any shortfall that may arise from a decline in commodity prices at the time of liquidation (if the offtaker does not honour its obligation)
- Commodity (i.e. rice) maintained as collateral in the structure expected to be easy to liquidate within a reasonable amount of time such that the funds should be available to the Trust before the legal final maturity date
- Established track record of the collateral manager

Credit challenges

- Exposure to price risk in case of liquidation of the commodities; however, limited volatility in historic commodity prices reduces the possibility of a shortfall in excess of the over-collateralisation available in the transaction
- Storage and transportation risk on commodities; losses due to force majeure, theft, fraud, etc, are covered through insurance policies, though timely receipt of insurance funds before the legal final maturity date cannot be ascertained
- Inability of collateral manager to liquidate the commodities in a timely manner due to unforeseen regulatory/legal challenges

Description of key rating drivers highlighted above

The principles of the transaction structure are given below:

- Offtaker (buyer) enters into an agreement with OCIPL for procuring commodity (rice) on cost-plus basis over a 9-month period. OCIPL procures the commodity and deposits the same in predefined warehouses, for storing till delivery, under the custody of a collateral manager and receives NWR/SR

- The underlying commodity shall be transferred to the Trust, by endorsing/assigning the NWR/SR. The commodity will be bankruptcy remote from OCIPL
- The collateral manager shall be responsible for safe storage, monitoring of value and liquidation of the collateral, if required
- During the storage period, if any breach in the required asset cover ratio[1] (due to decline in price of commodities or non-payment of monthly charges by offtaker) below 0.95 times occurs, the collateral manager would make a cash margin call to the offtaker. If the offtaker does not honour the margin call within a predefined period, the collateral manager would liquidate the commodity.
- Offtaker shall remit the funds, net of deposit/advance money including all other outstanding charges, to the trust account before taking delivery of the collateral. If any money is received by OCIPL, except initial advance/deposit, it shall deposit the same to the trust account. Collateral manager shall release the collateral only after receipt of funds from offtaker and confirmation from the trustee.
- Money thus collected in the trust account shall be utilised to make investor payouts on payout dates as per the waterfall mechanism

Key rating drivers

Credit strengths

Presence of credit enhancement in form of over collateral - The first line of support for Series A PTCs in the transaction is in the form of an over-collateralisation of 30.00% of the pool amount. As per the waterfall mechanism applicable to the transaction, PTC investors are promised the principal and interest payouts only on the maturity date, although every month, certain fees need to be paid to the service providers (expected to be ~0.35% of the collateral value including warehousing and collateral management expenses). The fee payments along with an interest charge would be borne by the off-taker on a monthly basis, and any unpaid expenses would be considered while calculating the asset cover ratio.

Till the time Series A PTCs are outstanding, the interest and principal payments to Series A PTCs is on expected basis and would be done ensuring that the over-collateralisation of 30.00% is maintained on the balance PTC principal outstanding. All excess collections in the pool, after meeting the aforementioned payouts, will flow back to OCIPL on a monthly basis. The over-collateralisation ensures that the investor payouts are met in full even if the commodity prices witness some decline during the liquidation process.

Commodity (rice) maintained as collateral in the structure expected to be easy to liquidate within a reasonable amount of time – The warehouse for the transaction would be in the region of Karnal in Haryana which is one of the major markets for rice and has large number of traders as well as established food processing entities active in the market. Further, the commodity can also be sold through e-auction, if required. The collateral manager would have at least three months to liquidate the stock (in the event the off-taker does not pick-up the entire procured commodity) since the liquidation would necessarily have to commence after completion of contractual tenure (which would be less than or equal to nine months) while the maturity date of the PTCs would be twelve months after securitisation. The collateral manager is thus expected to have sufficient time to carry out the liquidation process.

---

[1] Asset cover ratio = (minimum of market value and procurement cost of the collateral less unpaid interest amount by the offtaker on the collateral for the holding period less unpaid accrued expenses by the offtaker and other charges during the holding period) divided by procurement cost of the collateral

Established track record of collateral manager – The collateral manager plays an important role in the transaction as it would be responsible for checking the warehouse, verifying the quality and quantity of commodities procured, checking the asset cover ratio on a daily basis, maintaining the quality of the stored commodities, completing the timely liquidation of the commodities (if required), etc. The warehouse would be under the supervision of the collateral manager. Arya Collateral Warehousing Services Private Limited (ACWSPL) would be appointed as the collateral manager for the transaction. It has an established track record as a collateral manager with almost two decades of experience in the industry. It has been employed by various parties in the past, including banks, as a collateral manager.

Credit challenges

Exposure to price risk at time of liquidation of commodities – The offtaker of the commodities in the transaction is DD International Private Limited. Non-payment of charges or refusal to offtake the commodities by the offtaker would lead to the liquidation of the commodities. The transaction would thus be exposed to price risk pertaining to the commodity during the liquidation period. The price of rice over a 3-month period (in the last five years) had not declined by more than 18%, barring a higher decline of about 28% (during the above-mentioned period) in H1 FY2021. As rice is a basic commodity, it has seen relatively less volatile price movement and is easy to liquidate due to huge demand and the high volumes traded across the country. Nonetheless, a sharp decline in rice prices (by more than 20%) could result in a possible shortfall to the PTC investors, depending on the time and cost required for liquidation.

Storage and transportation risk on commodities – The transaction is exposed to the risk of any loss in commodity at the time of storage or transportation for sale. The loss could be on account of theft, fraud, fire, natural calamities, etc. While the collateral manager would take the necessary insurance policies (with the Trust being the recipient of the insurance proceeds) to cover losses, one cannot ascertain the timeliness of receipt of the insurance proceeds to avoid any shortfall on the maturity date of the PTCs. Monthly inspection by a third-party agency will be done at the warehouses to ensure that the quantity and quality are maintained and the inspection report shall be submitted to the trustee.

Inability of collateral manager to liquidate commodities in a timely manner due to unforeseen regulatory/legal challenges – The rating on the PTCs factors in the ability of the collateral manager to liquidate the commodities in a timely manner. Thus, any unforeseen regulatory or legal challenge that hampers the liquidation of the commodities would be a credit negative.

Performance of past rated pools: This is the third transaction originated by OCIPL rated by ICRA. One of the earlier transactions had matured, basis the offtake completed within the stipulated timelines, while the second transaction was not placed.

Key rating assumptions

ICRA's cash flow modelling for rating such asset-backed securitisation (ABS) transactions involves the assessment of potential scenarios of liquidation, possible losses during liquidation and the evaluation of the risks as a part of the transaction structure and the parties to the transaction. The resulting collections from the pool, after incorporating the impact of the losses based on possible scenarios, are evaluated in accordance with the cash flow waterfall of the transaction.

Liquidity position: Strong

As per the transaction structure, the interest and the principal are promised to the PTC holders on the scheduled maturity date of the transaction. The cash flows expected to be received in the trust account and the available credit enhancement are expected to be comfortable to meet the promised payouts to the Series A PTCs investors.

Rating sensitivities

Positive factors – The rating is unlikely to be upgraded.

Negative factors – The rating would remain sensitive to the adherence to the structure of the transaction. Failure to top up the asset cover after a sharp reduction in the commodity price or the inability of the trustee/collateral manager to liquidate the commodities in a timely manner could lead to a rating downgrade.

Analytical approach

The rating action is based on the analysis of the obligations of the collateral manager and the offtaker, the key characteristics and composition of the current pool, the possible risks and their mitigants over the tenure of the pool and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for 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. Supplemental Assignment Agreement
5. Accounts Agreement
6. Documentation for providing asset cover
7. NWR/SR endorsed by collateral manager in favour of OCIPL
8. Trustee letter
9. 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 any 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 company

Incorporated in 2011, OCIPL provides warehouse management and supply chain services, including TF and Profin of agri commodities. It offers integrated post-harvest management solutions, including storage and preservation and collateral management services for agri commodities, along with services such as pest management, testing and certification, fumigation and procurement of agri commodities.

Key financial indicators (audited/unaudited)

OCIPL (consolidated)	FY2021	FY2022	H1 FY2023*
Operating income	224.9	681.6	874.4
PAT	5.0	9.6	-
OPBDIT/OI	8.1%	5.6%	2.8%
PAT/OI	2.2%	1.4%	-
Total outside liabilities/Tangible net worth (times)	1.4x	1.5x	-
Total debt/OPBDIT (times)	10.1x	5.7x	-
Interest coverage (times)	1.2x	1.6x	1.5x

*Source: Company; *Unaudited financials*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; 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 (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 26, 2023	-	-	-
1	**Origo Agro 04 2023**	Series A PTCs	17.50	17.50	**Provisional [ICRA]A1(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A PTCs	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	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Origo Agro 04 2023	Series A PTCs	May 2023	9.50%	365 days from date of commencement	17.50	Provisional [ICRA]A1(SO)

** Scheduled PTC maturity date at transaction initiation; may change on account of prepayments*
Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

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

Gaurav Mashalkar
+91 22 6114 3431
gaurav.mashalkar@icraindia.com

Alwin Thankachan
+91 22 6114 3411
alwin.thankachan@icraindia.com

Priya Gounder
+91 22 6114 3454
priya.gounder@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