

February 01, 2024

## Kogta Financial India Limited: Provisional [ICRA]AA(SO) assigned to Series A1 SN backed by vehicle loan receivables issued by Bali 01 2024

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Bali 01 2024	Series A1 SN	119.57	Provisional [ICRA]AA(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
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### Rationale

ICRA has assigned a provisional [ICRA]AA(SO) rating to the Series A1 securitisation notes (SNs) issued under a securitisation transaction originated by Kogta Financial India Limited (Kogta). The SNs are backed by a pool of Rs. 131.39-crore (pool principal; receivables of Rs. 165.65 crore) vehicle loan receivables.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 5.00% of the total pool principal to be provided by the originator, (ii) subordination of 9.00% of the total pool principal for Series A1 SN, and (iii) the excess interest spread (EIS) of 15.33% for Series A1 SN, as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of CE in the form of over-collateralisation, EIS and CC
- Absence of overdue contracts as on cut-off date
- More than 66% of the contracts in the initial pool had a credit bureau score of at least 700 at the time of onboarding

#### Credit challenges

- High geographical concentration with top 3 regions comprising ~72% of the initial pool principal
- Performance of the pool could remain exposed to macro-economic shocks/business disruptions

### Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to Series A1 SN at the predetermined interest rate on the principal outstanding. The principal repayment to Series A1 SN is promised on each payout date only to the extent of 91% of the billed pool principal amount for each month. The balance 9% is expected to be paid monthly but is not promised.

During the tenure of Series A1 SN, the collections from the pool, after making the promised payouts to Series A1 SN, will be used to make the expected principal payouts to Series A1 SN, though a portion of the monthly principal payout (9%) is not promised and any shortfall in making the expected principal payment to Series A1 SN would be carried forward to the subsequent payout. The EIS available after meeting the promised and expected scheduled payments, as given above, will be paid to the equity tranche as interest payment on a monthly basis. The first line of support for Series A1 SN in the transaction is in the form of a subordination of 9.00% of the initial pool principal. Further support is available in the form of the EIS of 15.33% of the initial pool principal. A CC of 5.00% of the initial pool principal to be provided by Kogta acts as further CE in the

transaction. In the event of a shortfall in meeting the promised payouts during any month, the trustee will utilise the CC to meet the same.

The pool consists of loans with a moderate weighted average seasoning of 14.0 months and no overdue contracts as on the pool cut-off date. The initial pool had a mix of used and new vehicle loans in the ratio of 89:11. The pool consisted of car (22.4%); commercial vehicles (CVs; 48.5%), construction equipment (2.3%), and tractor (26.8%) loans as on the cut-off date. The weighted average loan-to-value (LTV) of the pool was 78.3% as on the cut-off date. The pool is also geographically concentrated with the top state, i.e. Gujarat, accounting for 26.3% of the initial pool principal. ICRA notes that the performance of the pool would be exposed to macro-economic shocks/business disruptions.

**Performance of past rated pools:** ICRA has rated 12 securitisation transactions with the underlying receivables originated by Kogta, of which 11 have matured. The matured pools had performed well with no instance of CC utilisation.

### Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) 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 mean and the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of the originator's loan portfolio. ICRA has also considered Kogta's credit quality experience and ICRA's expectation of the credit quality for the asset classes involved. The resulting collections from the pool, after incorporating the impact of losses and prepayments as above, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks for the target rating.

For the current pool, after adjusting for the key features like seasoning, overdues, LTV, initial loan tenure and geographical distribution separately for each asset class in the pool, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 4.0-5.0%, with certain variability around it. The variability is based on the static pool analysis of Kogta's portfolio for each asset class in the pool as well as ICRA's observation on the performance of the respective asset class for other originators. ICRA's estimation of the variability also considers Kogta's relatively moderate track record. The average prepayment rate for the underlying pool is estimated to be in the range of 4.8% to 18.0% per annum.

### Liquidity position: Strong

The liquidity for Series A1 SN is strong after factoring in the CE available for meeting the promised payouts to the investor. The total CE would be 5.25 times the estimated loss in the pool.

### Rating sensitivities

**Positive factors** – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%) leading to lower-than-expected delinquency levels and on an increase in the cover available for future PTC payouts from the CE.

**Negative factors** – Pressure on the rating could emerge on the sustained weak collection performance (monthly collection efficiency <90%) of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels. 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 Kogta's vehicle loan portfolio till September 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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. Chartered Accountant's know your customer (KYC) 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](http://www.icra.in).

## About the originator

Kogta Financial India Limited, incorporated in 1996, is a non-banking financial company, which primarily finances new and used commercial vehicles, multi-utility vehicles, cars, and tractors. It also provides micro, small and medium enterprise (MSME) loans and loan against property (LAP). The Jaipur-based company operates through a network of 206 branches (as on September 30, 2023) across Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Delhi NCR, Uttar Pradesh and Punjab & Haryana.

The company's assets under management (AUM) stood at Rs. 3,971 crore as on September 30, 2023 compared to Rs. 3,396 crore as on March 31, 2023 (Rs. 2,183 crore March 31, 2022). While the used vehicle financing segment accounted for 70% of the AUM as on September 30, 2023, the new vehicle financing segment's share stood at 11% with LAP/MSME loans accounting for 20%. Rajasthan accounted for 34% of the AUM as on June 30, 2023.

After the equity infusion in May 2022, the promoter group, viz. the Kogta family, has a 31.7% equity stake (including warrants) in the company on a fully-diluted basis. Other stakeholders include Morgan Stanley Private Equity Asia (23.2%), Creador Advisors India LLP (17.2%), Multiples Private Equity (14.3%) and Javelin Investments (9%).

The company's net worth stood at Rs. 1,134.8 crore as on March 31, 2023 compared to Rs. 651.0 crore as on March 31, 2022. The gross and net non-performing advances (NPAs) stood at 3.3% and 1.8%, respectively, as on March 31, 2023 compared to 3.6% and 2.5%, respectively, as on March 31, 2022. Kogta had a net worth of Rs. 1,190 crore as on September 30, 2023. The gross and net NPAs stood at 3.0% and 1.6%, respectively, as on September 30, 2023.

### Key financial indicators (audited)

Kogta Financial India Limited	FY2021	FY2022	FY2023
Total income	245	360	522
PAT	45	52	85
Assets under management (AUM)	1,496	2,183	3,396
Gross NPA	3.3%	3.6%	3.3%
Net NPA	2.4%	2.5%	1.8%

Source: Company, ICRA Research; All ratios 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	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Feb 01, 2024*	-	-	-
<b>Bali 01 2024</b>	Series A1 SN	119.57	119.57	<b>Provisional [ICRA]AA(SO)</b>	-	-	-

\*Provisional rating assigned

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 SN	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	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
<b>Bali 01 2024</b>	Series A1 SN	January 2024	9.20%	June 2028	119.57	Provisional [ICRA]AA(SO)

*\*Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

*Source: Company*

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

Not Applicable

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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.

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