

CapFloat Financial Services Private Limited

July 18, 2018

Summary of rated instruments

Issue Name	Instrument*	Initial Amount (Rs. Crore)	Amount after previous surveillance exercise (Rs. crore)	Amount after Jun-18 payout (Rs. crore)	Rating action
Ephor SBL IFMR Capital 2016	PTC Series A2	1.04	1.04	0.19	Rating upgraded from [ICRA]BB(SO) to [ICRA]BBB+(SO)
Kudrow SBL IFMR Capital 2016	PTC Series A2	1.07	1.07	0.18	Rating upgraded from [ICRA]BB(SO) to [ICRA]BBB+(SO)

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the ratings for PTCs under 2 loan securitization transactions originated by CapFloat Financial Services Private Limited (Capital Float), as tabulated above. The PTCs in both the transactions are backed by small business loan receivables originated by Capital Float. The receivables have been assigned to the respective trusts at par and each trust has issued two series of PTCs backed by the same.

Rationale

The upgrade in the ratings is on account of high amortisation of the PTC payouts under the transactions. The amortisation has led to a high build-up of the credit enhancement cover over the future PTC payouts. Also, the break-even collection efficiencies are very low when compared to the actual collection levels observed in the pools.

A summary of the performance of the pool till June 2018 payout month has been tabulated below.

Pool Performance Summary

Parameter	Ephor SBL IFMR Capital 2016	Kudrow SBL IFMR Capital 2016
Months post securitisation	22	20
Pool Amortization	93.70%	87.44%
PTC Amortization:		
PTC A1	100.00%	100.00%
PTC A2	81.84%	83.30%
Latest 3 months' average monthly collection efficiency	91.96%	91.19%
Cumulative Collection Efficiency ¹	91.76%	94.29%
Loss cum 30+ dpd ² (% of initial Pool)	4.45%	0.69%
Loss cum 90+ dpd ³ (% of initial Pool)	3.87%	0.69%
30+ dpd ⁴ (% of Balance Pool)	6.32%	3.65%
90+ dpd ⁵ (% of Balance Pool)	0.00%	3.65%
Cumulative Cash Collateral Utilization	0.00%	0.00%
Breakeven Collection Efficiency ⁶ for PTC A2	<0%	<0%
Credit Collateral (% of Balance Pool)	>100.00%	71.67%

Key rating drivers

Credit Strengths

- High amortization of senior PTCs resulting in high Cash Collateral (CC), Principal subordination and Excess Interest Spread cover available for the balance PTC payouts
- Moderate to good collection efficiency levels in the pools

Credit Challenges

- High obligor concentration in the pools

Description of key rating drivers highlighted above:

The performance of the pools has been moderate as of May 2018 collection month, with the cumulative collection efficiencies being above 91% for the both the pools till May 2018. While the monthly collection efficiency for the Kudrow SBL IFMR Capital 2016 pool has remained above 90% for most of the months in the last 12 months, the monthly collection efficiency for Ephor SBL IFMR Capital 2016 has ranged between 79% and 100%.

¹ (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

² Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

⁴ Inclusive of Unbilled Principal portion of contracts delinquent for more than 30 days, as a % of Balance Principal

⁵ Inclusive of Unbilled Principal portion of contracts delinquent for more than 90 days, as a % of Balance Principal

⁶ (Balance Cashflows payable to investor of PTC A1 & A2– Cash collateral available)/ Balance Pool Cashflows

There has been no credit collateral utilization till date in the aforesaid pools. The 30+ dpd (as a % of initial pool principal) is also moderate to low (at around 5% and 1% for Ephor SBL IFMR Capital 2016 and Kudrow SBL IFMR Capital 2016 respectively, after May 2018 collections). The senior PTCs have amortised fully and PTC A2 have amortized highly in case of these transactions resulting in significant build-up of credit enhancement for the balance tenure of the PTC payouts. Further, in these transactions, principal amount is promised to the PTC investors only on the final maturity date (only the interest amount is promised monthly). This imparts significant liquidity to the transactions in the interim period.

Overall, the credit enhancement available for meeting balance payouts to the investors is sufficient to upgrade the ratings in the transactions. ICRA will continue to monitor closely the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for surveillance of ABS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. Considering the high obligor concentration and the profile of the borrowers in the pools, ICRA has modelled each of these transactions as a CDO (i.e. at a contract level for all obligors) with an implied probability of default (PD) and loss given default (LGD). The PD is commensurate with non-investment grade rating view on the obligors and the tenure of the loan extended. The LGD has been assumed to be 100% since the loans are unsecured in nature. Additionally, a minimum level of base correlation has been assumed among the borrowers, with a further add-on correlation for borrowers belonging to same geography.

Analytical approach:

The rating actions are based on the performance of the pools till May 2018 (collection month), the present delinquency profile of the pool contracts, geographical spread of the pool contracts, performance expected over the balance pool tenure, and the credit enhancement available in these transactions.

Links to applicable criteria:

[Rating Methodology for Securitisation Transactions](#)

About the company:

Capital Float (CF) is the trade name of CapFloat Financial Services Private Limited (erstwhile Zen Lefin Pvt. Ltd.) which is an NBFC lending primarily to SMEs. The company was started in 2013 by co-founders Mr. Sashank Rishyasringa and Mr. Gaurav Hinduja and has raised funds from ASPADA, Sequoia, SAIF partners and Creation Investments. CF is a part of the evolving fin-tech industry or P2P lending companies. The industry targets the borrower segments which are difficult to access by traditional banks. The use of technology helps to reduce the turnaround time as well as underwrite the borrowers based on non-traditional data points from online space like social media, e-commerce sites etc. The company reported a net loss of Rs.47.3 crore for H1 FY2018 on a total managed asset base of Rs.895.6 crore as on September 2017. The reported networth of the company stood at Rs.430.9 crore as on September 2017 after the company raised Series C funding of Rs.293.0 crore in August 2017.

The company has a rating of [ICRA]BBB(Stable) and [ICRA]A3+ outstanding from ICRA for its Long term and Short term Fund based facilities respectively.

Key financial indicators (Audited)

	FY2016	FY2017	H1FY2018
Total Income (Rs. Crore)	14.2	53.8	55.3
Profit after Tax (Rs. Crore)	-29.0	-63.5	-47.3
Net worth (Rs. Crore)	72.7	183.2	430.9
Total Managed Portfolio (Rs. Crore)	111.3	545.0	895.6
Total Managed Assets (Rs. Crore)	133.3	664.2	1,198.3
Return on Managed Assets (%)	24.9%	-15.9%	-11.1%
Return on Net worth (%)	33.9%	-49.6%	-30.8%
Gearing (times)	0.7	1.6	1.0
Gross NPA (%)	0.6%	1.4%	2.1%
Net NPA (%)	0.0%	0.2%	0.2%
Capital Adequacy Ratio (%)	53.0%	37.5%	47.1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No	Instrument	Type	Current Rating (FY2018)		Date & Rating July-18	Chronology of Rating History for the past 3 years		
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)		Date & Rating in FY2018		
						Aug-17	Oct-16	Sep-16*
1	Ephor SBL IFMR Capital 2016	PTC Series A2	1.04	0.19	[ICRA]BBB+(SO)	[ICRA]BB(SO)	[ICRA]B(SO)	Provisional [ICRA]B(SO)

*Initial Ratings assigned

S. No	Instrument	Type	Current Rating (FY2018)		Date & Rating July-18	Chronology of Rating History for the past 3 years		
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)		Date & Rating in FY2018		
						Aug-17	Feb-17	Dec-16*
2	Kudrow SBL IFMR Capital 2016	PTC Series A2	1.07	0.18	[ICRA]BBB+(SO)	[ICRA]BB(SO)	[ICRA]B+(S O)	Provisional [ICRA]B+(SO)

*Initial Ratings assigned

Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

Issue Name	Instrument	Month of Issuance	Coupon Rate	Scheduled Maturity Date [#]	Rated Amount (Rs. crore ⁷)	Current Rating
Ephor SBL IFMR Capital 2016	PTC Series A2	Aug 2016	17.00%	Jan 2019	0.19	[ICRA]BBB+(SO)
Kudrow SBL IFMR Capital 2016	PTC Series A2	Oct 2016	17.00%	Apr 2019	0.18	[ICRA]BBB+(SO)

[#] the actual tenure is likely to be shorter owing to prepayments

⁷ 100 lakh = 1 crore = 10 million

ANALYST CONTACTS

Vibhor Mittal

+91 22 6114 3440

vibhorm@icraindia.com

Abhijeet Ajinkya

+91 22 6114 3434

abhijeet.ajinkya@icraindia.com

Rahul Panigrahi

+91 22 6114 3436

rahul.panigrahi@icraindia.com

Himanshi Doshi

+91 22 6114 3410

himanshi.doshi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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