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

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Vivriti Agro 07 2020	PTC Series A	21.0	Provisional [ICRA]A1(SO); Assigned

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has assigned provisional rating to pass through certificates (PTC) under a securitisation transaction originated by Origo Commodities India Pvt. Ltd. (OCIPL). The PTCs are backed by receivables from a Rs 30.0 crore (principal amount) pool of negotiable warehouse receipts (and 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 (i) a cash collateral of 5.00% of the pool principal to be provided by the Originator (i.e. OCIPL) and (ii) over-collateralisation of 30.00% of the pool principal for the PTC Series A. The provisional rating also considers the integrity of the legal structure and is subject to the fulfilment of all the conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

The principles of the transaction structure are given below:

- Off-takers (buyers) enter into an agreement with OCIPL for procuring commodity (maize) on cost plus basis over a 9-month period. OCIPL procures the commodity and deposits the same in warehouses till delivery under the custody of a collateral manager and receives negotiable warehouse receipts (NWR).
- The underlying commodity shall be transferred to the Trust, by assigning the NWR. 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 required asset cover ratio<sup>1</sup> (due to decline in price of the commodities or non-payment of the monthly charges by the off-taker) below 0.95 time, the collateral manager would make a cash margin call to the off-taker. In case the off-taker does not honour the margin call within a pre-defined period, the collateral manager would liquidate the commodity.
- Off-takers shall remit the funds, net of deposit/advance money including all other outstanding charges, to the trust account before taking delivery of the collateral. OCIPL shall deposit the deposit/advance money received from the

<sup>1</sup> Asset cover ratio = (Minimum of market value and procurement cost of the collateral less unpaid interest amount by the off-taker on the collateral for the holding period less unpaid accrued expenses by the off-taker and other charges during the holding period) divided by the procurement cost of the collateral

off-takers to the trust account. Collateral manager shall release the collateral only after receipt of funds from off-takers and confirmation from the trustee.

- The money thus collected in the trust account shall be utilised to make investor payouts on the payout dates as per the waterfall.

## Key rating drivers and their description

### Credit strengths

**Presence of credit enhancement in form of subordination and cash collateral** - The first line of support for PTC Series A in the transaction is in the form of a subordination of 30.00% of the pool principal (over-collateralisation). A cash collateral of 5.00% of the initial pool principal (Rs. 30.0 crore) provided by OCIPL acts as further credit enhancement in the transaction. This will be in the form of a fixed deposit maintained with a bank acceptable to ICRA or in form of a bank guarantee acceptable to ICRA. 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 1~1.5% of the collateral value). The fee payments along with an interest charge would be borne by the off-takers on a monthly basis, and any unpaid expenses would be considered while calculating the asset cover ratio.

Till the time PTC Series A is live, the interest and principal payments to PTC Series A 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 the Originator on a monthly basis. In the event of any shortfall in meeting the promised PTC payouts or in case of any shortfall in meeting dues of the PTC investors post liquidation of the collateral, the Trustee will utilise the cash collateral to make the investor payouts in full. The cash collateral not only provides credit support against losses on the pool, it also imparts liquidity to the transaction.

**Commodity (maize) 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 Gulab Bagh in Bihar which is one of the major grain markets 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-takers do not pickup 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.

**Established track record of the collateral manager** – The collateral manager would play 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, complete 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) has been currently appointed as the collateral manager for the transaction. ACWSPL 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 the commodities** – The proposed off-takers of the commodities in the transaction have relatively weak credit quality. Any non-payment of charges or refusal to off-take the commodities by the off-takers would thus lead to liquidation of the commodities. The transaction would thus be exposed to the price risk pertaining to the commodity during the liquidation period. The prices of maize over a 3-month period (in the last 6-7 years) have typically not declined by more than 15%, barring a higher decline of about 20% (over the same mentioned period) seen in the current calendar year due to the fall in demand of poultry products following Covid-19 pandemic, where maize is used as a feed. Maize being a basic commodity has seen relatively less volatile price movement and is easy to liquidate due to huge demand and high volumes traded across the country. Nonetheless, any sharp decline in maize prices (by more than 20%) could result in possible shortfall to the PTC investors depending on the time required for liquidation.

**Storage and transportation risk on the commodities** – The transaction is exposed to the risk of any loss in commodity at 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 for losses, one cannot ascertain the timeliness of receipt of the insurance proceeds to avoid any shortfall on the maturity date of the PTCs. The collateral manager would also obtain Professional Indemnity Insurance for the transaction. Monthly inspection by a third-party agency will be done at the warehouses to ensure the quantity and quality is maintained.

**Inability of collateral manager to liquidate the commodities in a timely manner due to unforeseen regulatory / legal challenges** – The rating on the PTCs is largely driven by 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 first transaction originated by OCIPL.

## Key rating assumptions

ICRA's cash flow modelling for rating such asset-backed security (ABS) transactions involves the assessment of potential scenarios of liquidation, possible losses during liquidation and 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, both the interest and the principal amount is 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 PTC Series A investors.

## Rating sensitivities

**Positive triggers** – The rating assigned is unlikely to be upgraded given the credit challenges highlighted earlier.

**Negative triggers** – The rating assigned to the PTCs would remain sensitive to the adherence to the structure of the transaction. In case of failure to top-up the asset cover after any sharp reduction in price of commodity 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 off-taker, 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

## About the company

Origo Commodities India Pvt. Ltd. (OCIPL) was incorporated in 2011. It provides integrated post-harvest management solutions (including storage, preservation and collateral management services for agri commodities), along with services such as pest management, testing and certification and procurement of agri commodities. Further, OCIPL provides supply chain and warehouse management services. The procurement business was started in 2013, with supply chain finance business started in 2016. From 2017-2019, the company raised ~US\$ 12mn from marquee early stage investors - Oikocredit, Triodos, and Caspian. At present, the company operates about 620 warehouses in India spread across 13 states, with a total warehousing capacity of over 3.5 million tonnes, and AUM of ~Rs 91 billion.

## Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)
Operating Income [OI]	160.7	291.1
Profit After Tax	4.5	7.6
Operating Profit Before Depreciation, Interest And Tax [OPBDIT]/OI (%)	9.0%	7.9%
Profit After Tax/OI (%)	2.8%	2.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8
Total Debt/OPBDIT (times)	6.1	4.4
Interest Coverage (times)	3.3	2.5

Source: OCIPL, ICRA research; Amount in Rs. crore

## About the collateral manager – Arya Collateral Warehousing Services Private Limited (ACWSPL)

Incorporated in 1982, ACWSPL provides post-harvest agriculture value chain services including warehousing, collateral management, audit and consultancy services. The company was set up by the J.M. Baxi Group and it entered collateral management services in 2002, primarily for ICICI Bank. Over the years, ACWSPL expanded its scope of services by offering warehousing services for agriculture commodities, consultancy and audit services. The warehousing segment has been the key growth driver for the company and contributed 65-66% to its turnover in FY2020 followed by trading

(19%), collateral management (12%) and others. Its key customers include banks & financial institutions, corporates, farmers and farmer produce organisations (FPOs).

On a standalone basis, in FY2020, the company reported a profit after tax (PAT) of Rs. 5.02 crore on a total asset base of Rs. 105.85 crore as on March 31, 2020 against PAT of Rs. 4.74 crore in FY2019 on a total asset base of Rs. 41.78 crore as on March 31, 2019. On a consolidated basis, the company reported PAT of Rs. 2.62 crore in FY2020 on a total asset base of Rs. 150.10 crore as on March 31, 2020 against PAT of Rs. 3.99 crore in FY2019 on a total asset base of Rs. 67.01 crore as on March 31, 2019.

### Key financial indicators – ACWSPL (consolidated)

	<b>FY2019 (Audited)</b>	<b>FY2020 (Provisional)</b>
Profit after Tax	3.99	2.62
Operating Income	88.09	130.10
Net Worth	32.83	78.84
Total Assets	67.01	150.10
OPBDITA/OI (%)	8.61%	6.70%
RoCE (%)	15.15%	8.46%
Total Debt/TNW (times)	0.72	0.72
Total Debt/OPBDITA (times)	3.25	6.47
Interest Coverage (times)	4.32	2.33

Source: ACWSPL, ICRA research; Amount in Rs. crore

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years

Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
	Type	Rated Amount	Amount Outstanding	Date & Rating	FY2020	FY2019	FY2018
1 Vivriti Agro 07 2020	PTC Series A	21.0	21.0	17-Jul-20 Provisional [ICRA]A1(SO)	-	-	-

Amount in Rs. crore

### Complexity level of the rated instrument

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](http://www.icra.in)

### Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance*	Coupon Rate <sup>#</sup>	Scheduled Maturity Date	Amount Rated (Rs. crore)	Current Rating
Vivriti Agro 07 2020	PTC Series A	TBD	13.30%	365 days from commencement date	21.0	Provisional [ICRA]A1(SO)

*\*To be decided*

*<sup>#</sup> Per annum, payable monthly*

## Analyst Contacts

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Sankha Subhra Banerjee**

+91 22 6114 3420

[sankha.banerjee@icraindia.com](mailto:sankha.banerjee@icraindia.com)

**Gaurav Mashalkar**

+91 22 6114 3431

[gaurav.mashalkar@icraindia.com](mailto:gaurav.mashalkar@icraindia.com)

**Sushant Vanmali**

+91 22 6114 3436

[sushant.vanmali@icraindia.com](mailto:sushant.vanmali@icraindia.com)

## Relationship Contact

**L Shivakumar**

+91 22 6169 3304

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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) 2556 0194/ 6606 9999

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