July 19, 2021

Capital Trust Limited: Rating confirmed as final for PTCs issued under a small business loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
CredAvenue Kason 03 2021	PTC Series A1	12.64	[ICRA]BBB+(SO); Provisional rating confirmed as final

**Instrument details are provided in Annexure-1*

Rationale

In March 2021, ICRA had assigned a Provisional [ICRA]BBB+(SO) rating to PTC Series A1 issued by CredAvenue Kason 03 2021. The pass-through certificates (PTCs) are backed by a pool of receivables (initial) worth a Rs. 17.16-crore pool of small business loans (SBLs; underlying initial pool principal of Rs. 14.04 crore) originated by Capital Trust Limited (CTL). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool's performance after the June 2021 payout month is shown in the table below.

Parameters (%)	CredAvenue Kason 03 2021
Months post securitisation	3
Pool amortisation	33.09%
PTC amortisation	36.77%
Cumulative collection efficiency	95.64%
Loss-cum-0+ dpd	8.86%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread, over-collateralisation/subordination and cash collateral (CC)
- No overdue contracts in the pool as on the cut-off date
- None of the borrowers availed moratorium and have paid regularly post the end of the moratorium period
- Moderate pre-securitisation amortisation of ~25% of the pool as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing around 75% to the initial pool principal amount
- Performance of pool would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; pool's performance would also be exposed to political and communal risks.
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 10.00% of the pool principal. Additionally, the EIS available in the structure will provide credit enhancement support to the transaction. As per the transaction structure, any collection in excess of the promised interest payouts to PTC Series A1 would be first utilised for the payment of the expected principal of PTC Series A1 and the rest would be passed on to the originator on a monthly basis. A CC of 8.00% of the initial pool principal provided by CTL acts as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that are moderately seasoned with a weighted average seasoning of ~5 weeks and the door-to-door residual tenure of the contracts is moderate at 21 weeks. The geographical concentration of the loan contracts in the current pool is high with the top 3 states constituting 75% of the pool principal. ICRA notes that all the contracts have paid all the instalments post the end of the moratorium, which provides comfort. Nonetheless, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

Performance of past rated pools: ICRA has rated one transaction originated by CTL, which is backed by SBLs. The pool had completed nine payouts as of June 2021 (payout month) and has amortised by ~62%. The loss-cum-90+ dpd is low at 1.70%. The performance of the pool has been good till date with the cumulative collection efficiency exceeding 102%.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for the mean shortfall and coefficient of variation (CoV) are arrived at on the basis of the values observed in the analysis of the originator's loan portfolio. The assumptions may also be adjusted to account for the current macroeconomic situation as well as any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts. After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 7.00-8.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 2.0-3.0% per annum.

Liquidity position: Adequate

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC Series A1 investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (>95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancements in addition to an improvement in the credit profile of CTL.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool (monthly collection efficiency <95%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Capital Trust Limited (CTL) is a non-banking financial company (NBFC-SI) listed on the Bombay Stock Exchange and the National Stock Exchange. Incorporated in 1985, the company is promoted by Mr. K.R. Puri {former Governor, Reserve Bank of India (RBI)}, Mr. R.K. Kaul (former Deputy Governor, RBI) and Justice H.S. Beg (former Chief Justice of India). Initially, the company mainly provided consultancy services to foreign banks. In 2004, it forayed into two-wheeler financing for four years. This was followed by the microfinance business till 2012, which was halted due to the RBI guidelines for NBFC-microfinance institutions (NBFC-MFIs).

CTL changed its business model with priority to micro small and medium enterprise (MSME) lending and focused on the micro segment of the MSME sector. However, in 2014, after the RBI's regulation allowing NBFCs to operate in the microfinance industry as a business correspondent (BC) of a bank, CTL joined hands with Yes Bank Limited and started operating in the microfinance sector as the bank's official BC. With this regulation, CTL became one of the only companies in the nation that could operate in both the MSME and the microfinance sector. In March 2016, CTL received an equity investment of Rs. 65 crore from Lighthouse Funds through a preferential allotment. In October 2016, CTL acquired Parikarma Investments and Financial Services (an NBFC-MFI; now called Capital Trust Microfinance) to grow the microfinance portfolio on its own books. Currently, Capital Trust Microfinance operates as a 100% subsidiary of CTL. Thus, disbursements in the microfinance sector take place through Capital Trust Microfinance while disbursements in the MSME sector take place through CTL.

As of December 31, 2020, CTL had a portfolio of Rs. 427 crore spread across 241 branches in 10 states and 68 districts.

Key financial indicators

Capital Trust Limited	FY2019	FY2020	FY2021
	Ind-AS	**Ind-AS**	**Ind-AS**
Total Income	187.5	147.2	114.6
Profit after Tax	9.2	4.3	(23.6)
Assets under Management	725.3	471.4	401.1
% Gross NPAs	9.9%	7.5%^	1.95%
% Net NPAs	8.6%	4.2%^	0.00%

Source: *CTL and ICRA research; Amount in Rs. crore*

^GNPA and NNPA% on standalone basis; consolidated not available; FY2020 NPA% indicate gross stage 3 and net stage 3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jul 19, 2021	Mar 31, 2021	-	-
1	CredAvenue Kason 03 2021	PTC Series A1	12.64	12.64	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
CredAvenue Kason 03 2021	PTC Series A1	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-1: Instrument details

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
CredAvenue Kason 03 2021	PTC Series A1	March 2021	13.50%	January 2023	12.64	[ICRA]BBB+(SO)

Source: *Company*

Annexure-2: 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

Himanshi Doshi
+91 22 6114 3410
himanshi.doshi@icraindia.com

Yuvraj Handa
+91 22 6114 3400
yuvraj.handa@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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