January 06, 2022

Capital Trust Limited: Provisional [ICRA]BBB+(SO) assigned to PTC Series A1 backed by small business loans issued by Mcmahon 12 2021

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Mcmahon 12 2021	PTC Series A1	11.71	Provisional [ICRA]BBB+(SO); Assigned

**Instrument details are provided in Annexure-1*

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 Capital Trust Limited (CTL/Originator). The PTCs are backed by receivables from a Rs. 13.01-crore (principal amount; receivables of Rs. 16.36 crore) pool of small business loans (SBLs).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 8.00% of the pool principal to be provided by the Originator, (ii) subordination of 10.00% of the pool principal for the Series A1 PTCs, and (iii) subordination of the entire excess interest spread (EIS) in the structure. The provisional rating is also based on the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, over-collateralisation/subordination and CC
- No overdue contracts in the pool as on the cut-off date
- None of the contracts are restructured as on cut-off date
- Moderate pre-securitisation amortisation of ~22% of the pool as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing ~70% to the initial pool principal amount
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic
- Performance of the pool would also remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pool's performance would be exposed to political and communal risks

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The promised cash flow schedule for PTC Series A1 on a monthly basis will comprise the interest at the predetermined yield on the outstanding PTC principal on each payout date and the entire principal on the final maturity date. The pool amortisation schedule is subject to modification on account of prepayments. On each payout date, collections from the pool, after meeting the promised interest payouts to PTC Series A1, will be paid out to meet the expected Series A1 PTC principal amortisation (to the extent of 100% of pool principal billing).

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 CE support to the transaction. The EIS will flow back to the Originator after the promised and expected payouts to the PTCs have been made every month. A CC of 8.0% of the initial pool principal provided by CTL acts as further CE 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 5.2 months and moderate pre-securitisation amortisation of 21.5%. The door-to-door residual tenure of the contracts is moderate at 20.3 months. The geographical concentration of the loan contracts in the current pool is high with the top 3 states constituting 70.1% of the pool principal. 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 four pools originated by CTL, which are backed by SBLs. The performance of the pools (that have completed at least three months post securitisation) has been good till date with the cumulative collection efficiency exceeding 96% as of the November 2021 payout. The pools have seen moderate to high amortisation till the November 2021 payout month, resulting in significant build-up in the CE for the balance PTC payouts. No CC has been utilised till date.

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 6.00-7.00%, 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 liquidity to the transaction in the interim period. The cash flows from the pool and the available CE 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 CE and 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 CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of CTL's portfolio till September 2021, 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	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 a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Auditor's 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.

About the company

Capital Trust Limited (CTL) is a non-banking financial company (NBFC-systemically important) 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, it 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 September 30, 2021, CTL had a portfolio of Rs. 310 crore spread across 315 branches in 10 states and 91 districts.

Key financial indicators

Capital Trust Limited	FY2020	FY2021	H1 FY2022
	Ind-AS	**Ind-AS**	**Ind-AS**
Total Income	147.2	114.6	49.0
Profit after Tax	4.3	(23.6)	(12.9)
Assets under Management	471.4	401.1	310.8
% Gross NPAs	7.5%^	1.95%	3.80%
% Net NPAs	4.2%^	0.00%	0.00%

Source: *CTL and ICRA Research; Amount in Rs. crore*
^GNPA and NNPA% on standalone basis as consolidated not available; FY2020 NPA% indicates 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

	Trust name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Instrument name	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jan 06, 2022	**-**	**-**	**-**
1	Mcmahon 12 2021	PTC Series A1	11.71	11.71	**Provisional [ICRA]BBB+(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Mcmahon 12 2021	PTC Series A1	December 2021	13.80%	Sep 2023	11.71	Provisional [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

Nemish Shah
+91 22 6114 3400
nemish.shah@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