January 17, 2022

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
Kenpachi 09 2021	PTC Series A1	22.53	[ICRA]BBB(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure-1*

Rationale

In October 2021, ICRA had assigned Provisional [ICRA]BBB(SO) rating to pass-through certificates (PTCs) Series A1 issued by Kenpachi 09 2021. The PTCs are backed by receivables from Rs. 25.04-crore (principal amount; receivables of Rs. 31.09 crore) pool of small business loans (SBL) originated by Capital Trust Ltd (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 December 2021 payout is provided in the table below.

Parameter	Kenpachi 09 2021
Months post securitisation	3
Pool amortisation	25.78%
PTC Series A1 amortisation	28.64%
Cumulative prepayment rate	5.89%
Cumulative collection efficiency (excluding advance collections)	97.70%
Loss-cum-0+ dpd	2.88%
Loss-cum-30+ dpd	0.73%
Loss-cum-90+ dpd	0.22%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), over-collateralisation/subordination and cash collateral (CC)
- No overdue contracts in the pool as on the cut-off date.
- None of the borrowers availed a moratorium and have paid regularly post the end of the moratorium period.
- Moderate pre-securitisation amortization of ~ 27% of the pool as on the cut-off date.

Credit challenges

- High geographical concentration with top state contributing ~29% of the initial pool principal amount as on cut off date
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

- Performance of the pool would 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 have been assigned at par to the PTC investors. The promised cash flow schedule for PTC Series A1 on a monthly basis comprises 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 initial 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 5.50% of the initial pool principal (i.e. Rs. 1.38 crore) 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 5.7 months and the door-to-door residual tenure of the contracts is moderate at 21 months as on cut off date. The geographical concentration of the loan contracts in the current pool is high with the top 3 states constituting 70% of the initial 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 five pools originated by CTL, which are backed by SBLs. The performance of the live pools (which have completed at least three payouts) has been good till date with the cumulative collection efficiency exceeding 96% as of the December 2021 payout. The pools have seen moderate to high amortisation till the December 2021 payout month, resulting in significant build-up in the credit enhancement 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 (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and 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 6.75%-7.75% of the initial pool principal, 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 credit enhancements. The rating could also be upgraded on an improvement in CTL's credit profile.

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	
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-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 enterprises (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 September 30, 2021, CTL had a portfolio of Rs. 310 crore spread across 315 branches in 10 states and 91 districts.

Key financial indicators

	FY2020	FY2021	H1FY2022
	Ind-AS	Ind-AS	Ind-AS
Total income	147.2	114.6	49.0
Profit after tax	4.3	(23.6)	(12.9)
Gross AUM	471.4	401.1	310.8
% Gross NPA	7.5%^	1.95%	3.80%
% Net NPA	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	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 17,2022	Oct 06, 2021	-	-	-
1	Kenpachi 09 2021	PTC Series A1	22.53	22.53	[ICRA]BBB(SO)	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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Kenpachi 09 2021	PTC Series A1	October 2021	14.50%	June 2023	22.53	[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

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