September 23, 2022

Capital Trust Limited: Rating upgraded for PTCs issued under small business loan receivables securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Aug-22 Payout (Rs. crore)	Rating Action
Kenpachi 09 2021	PTC Series A1	22.53	NA	3.34	[ICRA]A-(SO); Upgraded from [ICRA]BBB(SO)
Anita 03 2022	PTC Series A1	12.48	NA	4.85	[ICRA]A-(SO); Upgraded from [ICRA]BBB(SO)

**Instrument details are provided in Annexure I*

Rationale

The pass-through certificates (PTCs) originated by Capital Trust Limited (CTL) are backed by pools of small business loans. The rating has been upgraded on account of the moderate to high amortisation in the transactions, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency for the pools is comfortable compared to the actual collection level observed in the pools.

Pool performance summary

A summary of the performance of the pools till the July 2022 collection month has been tabulated below.

Parameter	Kenpachi 09 2021 (Kenpachi)	Anita 03 2022 (Anita)
Months post securitisation	11	4
Pool amortisation	76.7%	55.0%
PTC amortisation – PTC Series A1	85.2%	61.1%
Cumulative collection efficiency[1]	115.9%	125.8%
Loss-cum-0+ (% of initial pool principal)[2]	3.6%	2.4%
Loss-cum-30+ (% of initial pool principal)[3]	2.7%	1.7%
Loss-cum-90+ (% of initial pool principal)[4]	1.9%	1.0%
Breakeven collection efficiency [5] PTC Series A1	31.7%	61.23%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.0%	0.0%
CC available (as % of balance pool principal)	23.6%	12.2%
Principal subordination (% of balance pool) PTC Series A1	42.8%	22.2%
Excess interest spread (EIS; as % of balance pool principal) PTC Series A1[6]	9.6%	8.3%
Cumulative prepayment rate[7]	8.9%	8.3%

[1] *Cumulative collections till date (including advance collections) / Cumulative billings till date + Opening overdues*

[2] *POS on contracts aged 0+ dpd + Overdues / Initial POS on the pool*

[3] *POS on contracts aged 30+ dpd + Overdues / Initial POS on the pool*

[4] *POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool*

[5] *It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Credit collateral available) / Balance pool cash flows*

[6] *(Pool cash flows – Cash flows to PTC A1 – Originator's residual share) / Pool principal outstanding*

[7] *Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal*

Key rating drivers and their description

Credit strengths

- Significant amortization of PTCs resulting in build-up of Cash Collateral (CC), Principal subordination and Excess Interest Spread cover available for the balance PTC payouts;
- The pool has exhibited high cumulative collection efficiency and low delinquency levels at 90+dpd with nil CC utilization till date.

Credit challenges

- High geographical concentration in balance pool with top three states contributing to ~73% for Kenpachi pool and ~65% for Anita pool
- Pool performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic
- Performance of 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 performance would also be exposed to political and communal risks.

Description of key rating drivers highlighted above

The cumulative collection efficiency of both pools has been healthy at more than 100% as of the July 2022 collection month. There has been no CC utilisation in any of the pools till the August 2022 payout month. The loss-cum-90+ dpd has been low in the range of 0.95-1.90%. The pools have seen high prepayments with a cumulative prepayment rate of around 8%. The pools have amortised in the range of 55-77%, leading to the build-up of CE in both pools. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the rating to the current level in the transactions.

ICRA will continue to monitor the performance of the pools. Any further rating action will be based on the performance of the pools and the availability of CE relative to ICRA's expectations. Moreover, the performance of the pools would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the marginal borrower profile, the pools' performance would also be exposed to natural calamities and political and communal risks.

Performance of past rated pools: ICRA has previously rated seven PTCs backed by pools of loans originated by CTL, including two pools which have matured. The performance of the live pools (that have completed at least three months post securitisation) has been good till date with the cumulative collection efficiency (including advances) exceeding 100% as of the August 2022 payout. These pools have seen moderate to high amortisation till the August 2022 payout month, resulting in significant build-up of 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 (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 consider the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pools is provided in the following table.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Kenpachi	1.75%-2.75%	2.0%-9.0% p.a.
2	Anita	2.50%-3.50%	2.0%-9.0% p.a.

Liquidity position: Strong

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. The cash flows from the pools and the available CE are expected to be comfortable to meet the promised payouts to the PTC Series A1 investors.

Rating sensitivities

Positive factors – Sustained strong collection performance of the underlying pool 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 along with Improvement in credit profile of CTL.

Negative factors – Sustained weak collection performance of the underlying pool (Monthly collection efficiency <90%) leading to higher-than-expected delinquency levels and CE utilization levels.

Analytical approach

The rating action is based on the analysis of the performance of CTL's portfolio till June 2022, the key characteristics and composition of the current pools, the performance expected over the balance tenure of the pools, and the CE cover available in the transactions.

Analytical Approach	Comments
Applicable rating methodologies	[Rating Methodology for Securitisation Transactions](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

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, the Reserve Bank of India or RBI), Mr. R. K. Kaul (former Deputy Governor, RBI) and Justice H. S. Beg (former Chief Justice of India). CTL was initially involved in providing 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's guidelines for NBFC-microfinance institution (NBFC-MFI) entities.

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. In 2014, however, 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 their official BC. Owing to this regulation, CTL became one of the only companies in the nation that could operate in both the MSME and the microfinance sectors.

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 wholly-owned subsidiary of CTL. Thus, disbursements in the microfinance sector are made through Capital Trust Microfinance while disbursements in the MSME sector are made through CTL.

As of June 30, 2022, CTL had a portfolio of Rs. 307.4 crore spread across 315 branches in 10 states and 94 districts.

Key financial indicators (audited)

Capital Trust Limited	FY2021	FY2022	Q1 FY2023
Total income	110.3	106.0	24.7
Profit after tax	(23.6)	(10.3)	1.9
Gross assets under management	401	301	307.4
Gross NPA	4.3%	5.0%	5.9%
Net NPA	0.0%	0.0%	0.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					September 23, 2022	Jan 17, 2022	Oct 06, 2021*	-	-
1	**Kenpachi 09 2021**	PTC Series A1	22.53	3.34	**[ICRA]A-SO)**	**[ICRA]BBB(SO)**	**Provisional [ICRA]BBB(SO)**	-	-

**Initial rating assigned*

Sr. No.	Trust Name	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years		
		Instrument	Initial Amount Rated (Rs. Crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					September 23, 2022	Jun 17, 2022	Mar 31, 2022*	-	-
2	**Anita 03 2022**	PTC Series A1	12.48	4.85	**[ICRA]A-(SO)**	**[ICRA]BBB(SO)**	**Provisional [ICRA]BBB(SO)**	-	-

**Initial rating assigned*

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Kenpachi 09 2021	PTC Series A1	Moderately Complex
Anita 03 2022	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 I: Instrument details

Trust Name	Instrument	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Kenpachi 09 2021	PTC Series A1	October 2021	14.50%	June 2023	3.34	[ICRA]A-(SO)
Anita 03 2022	PTC Series A1	March 2022	14.00%	May 2023	4.85	[ICRA]A-(SO)

** Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*
Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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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.

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