October 06, 2020

Capital Trust Limited: Provisional [ICRA]BBB(SO) assigned to PTCs backed by small business loans

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
NewgenIsha Trust Sept 2020	PTC Series A1	24.53	Provisional [ICRA]BBB(SO); Assigned

**Instrument details are provided in Annexure-I*

Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTC) issued under a securitisation transaction originated by Capital Trust Limited (CTL). The PTCs are backed by receivables from a Rs. 27.25 crore (principal amount) pool of unsecured small business loans.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, CTL's track record in the lending business, the available credit enhancement in the form of a cash collateral (CC) of 10.00% of the pool principal, a subordination of the excess interest spread (EIS), and the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS and CC
- Absence of overdue contracts as on pool cut-off date
- Moderate weighted average amortisation of ~33% for the pool

Credit challenges

- Moderate share of contracts in the pool under moratorium (~51% in April 2020 and 8% in August 2020)
- Rise in delinquencies at portfolio level for the micro business loan (MBL) asset class; peaking of delinquencies yet to happen across vintages as most contracts have not completed the cycle
- Post moratorium period, uncertainty regarding repayment capability of borrowers who availed moratorium in the pool
- Pool performance would be exposed to any prolonged economic slowdown caused by Covid-19 pandemic

Description of key rating drivers highlighted above

The first line of support for the Series A1 PTCs in the transaction is in the form of an EIS (16.41% as on the cut-off date) arising from the excess of the pool yield over the PTC yield. The promised cashflow schedule for PTC Series A1 on a monthly basis will comprise interest (at the pre-determined yield) on the outstanding PTC principal and the principal to the extent of 100% of the billed pool principal on each payout date. The excess available after meeting promised and expected payouts to the PTCs will be passed on to the originator every month. ICRA notes that a principal subordination of 10% is also available (PTC Series A1 principal is 90% of the pool principal). However, since 100% of the billed pool principal is promised every month to the PTC investor, the maturity date of the PTCs is co-terminus with 90% of the pool principal billing.

A CC of 10.00% of the initial pool principal (Rs. 2.73 crore), to be provided by CTL, acts as further credit enhancement in the transaction. The CC will be in the form of a fixed deposit maintained with a bank. 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. The CC not only provides credit support against losses on the pool, it imparts liquidity.

There are no overdues in the pool as on the cut-off date. Some borrowers in the pool have availed a moratorium during March 2020 to August 2020 (highest was ~51% in April 2020 and ~8% in the last moratorium month of August 2020). The pool mainly consists of unsecured loan products belonging to two categories, namely MBL and micro enterprise loans (MEL), with a pool proportion of 65.4% and 34.6%, respectively. The pool has moderate geographical concentration with the top state (Punjab) accounting for 28.2% of the pool principal while the top three districts account for 17.6% of the pool principal. All borrowers in the pool have a CIBIL score of at least 650 as on the cut-off date. The weighted average seasoning of the pool is 13.2 months with a pre-securitisation amortisation of 32.7% as on the cut-off date.

Performance of past rated pools: This is the first standalone PTC transaction of CTL being rated by ICRA.

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 contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 8.0-9.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 2.0-5.0% per annum.

Liquidity position: Adequate

A CC will be available in the transaction. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in the current stress scenario, the CC of 10.00% would cover the shortfalls in the PTC payouts for a period of three months.

Rating sensitivities

Positive triggers – The rating could be upgraded based on both the following events

- 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
- Improvement of credit profile of CTL.

Negative triggers – 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 2020, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement 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

About the company

Capital Trust Limited (CTL) is a Non-Banking Finance 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, 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-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 June 30, 2020, CTL had a portfolio of Rs. 459 crore spread across 251 branches in 10 states and 67 districts.

Key financial indicators (consolidated)

	FY2019	FY2020	Q1FY2021
Total income (Rs. crore)	187.5	147.2	27.7
Profit after tax (Rs. crore)	9.2	4.3	2.1
Assets under management (Rs. crore)	725.35	471.40	458.57
Gross NPA (%)	9.9%	7.5%^	8.0%
Net NPA (%)	8.6%	4.2%^	3.6%

Source: Company, ICRA research

^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: Not applicable

Rating history for last three years

	Instrument	Current rating (FY2021)				Rating history for the past 3 years		
		Type	Rated amount	Amount outstanding	Rating 06-Oct-2020	FY2020 -	FY2019 -	FY2018 -
1	NewgenIsha Trust Sept 2020	PTC Series A1	24.53	24.53	Provisional [ICRA]BBB(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

Annexure-1: Instrument details

Trust name	Instrument name	Date of issuance	Coupon rate (p.a.)	Scheduled maturity date*	Amount rated (Rs. Crore)	Current rating
NewgenIsha Trust Sept 2020	PTC Series A1	September 2020	10.48%	March 2022	24.53	Provisional [ICRA]BBB(SO)

** Scheduled maturity at transaction initiation; May change on account of prepayments in the underlying pool*

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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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