

## Press Release



### Ugro Capital Limited SME190930 Series1 (Trust)

November 27, 2019

#### Rating Assigned

<b>Pass through Certificate*</b>	Rs. 24.38 Cr.
<b>Long Term Rating</b>	ACUITE A- (SO) (Assigned: Converted from Provisional to Final rating)

\* Refer Annexure for details

#### Rating Rationale

Acuité has converted the provisional rating to final rating of '**ACUITE A-(SO)**' (**read as ACUITE A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) issued by SME190930 Series1 (The Trust) under a securitisation transaction originated by Ugro Capital Limited (Ugro) (The Originator). The PTCs are backed by a pool of loans provided to NBFCs with principal outstanding of Rs. 27.09 Cr (including Rs. 2.71 Cr of over collateralisation). The conversion from provisional rating to final rating reflects the fulfilment of the conditions laid out in the press release dated 04<sup>th</sup> October, 2019.

The rating is based on the strength of cash flows from the selected pool of contracts; the credit enhancement is available in the form of

- (i) Cash collateral of 10.00 percent of the pool principal to be provided by the Originator,
- (ii) Over collateralisation of 10.00 percent of the pool principal for SME190930 Series1 PTC and,
- (iii) Entire Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure.

The rating assigned is finalized based on fulfilment of conditions under the structure, copies of legal documents executed in accordance with the structure and an independent legal opinion furnished by the Originator, to the satisfaction of Acuité.

#### About the Originator (Ugro Capital Limited)

Ugro, was originally incorporated as Chokhani Securities Limited in 1993, it is a systemically important non-deposit taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). In 2018, pursuant to a change in management, the company was renamed as UGRO Capital Limited. The company's equity shares are listed on the Bombay Stock Exchange (BSE).

Ugro, (rated ACUITE A/Stable/A1), is promoted by Mr. Shachindra Nath, who is a seasoned finance professional with more than two decades of experience in the financial services sector. He is also currently the Executive Chairman and Managing Director of the company. Ugro's head office is at Mumbai and it has branches across the eight metro cities in the country. The company is engaged in lending to the MSME segment and in eight specifically identified sectors i.e. Healthcare, Education, Chemicals, Food Processing/FMCG, Hospitality, Electrical Equipment's and Components, Auto Components and Light Engineering. For the latest rating rationale, refer to <https://www.acuite.in/documents/ratings/revised/27695-RR-20190925.pdf>

#### **Assessment of the pool:**

Ugro's total exposure towards NBFCs was Rs. 81.26 Cr i.e. 16% of the total loan book as on 31<sup>st</sup> August 2019. The current pool being securitised comprises ~33% of the overall NBFC exposures. The pool comprises 7 term loans of Rs. 5 Cr each (original amount) extended to seven NBFCs. Of these five are systemically important (SI) NBFCs and two are NBFC-Non SI. In terms of asset profile, four NBFCs are engaged in providing working capital loans (Secured / Unsecured) to SMEs, two are engaged in financing of commercial and passenger vehicle and one is a NBFC-MFI (Micro financial Institution). All these NBFCs currently have a healthy credit profile.

The underlying term loans are repayable monthly and are secured by charge on receivables, with a security cover of 1.05 times for one NBFC and 1.10 times for the other six NBFCs. The original maturities of these loans are ranging 18-30 months. The loans have been sanctioned for onward lending towards eight specifically identified sectors which are Ugro's prime lending segments. The loans have fixed interest rates

with weighted average yield of 12.5 percent. The loans were sanctioned with a prepayment penalty clause, which acts as a protection for any future prepayments/ balance transfers.

As on the pool cut-off date, August 31, 2019, the pool was 22.60 percent amortised with an aggregate principal outstanding balance of Rs. 27.09 Cr. The average outstanding loan balance was Rs. 3.87 Cr and weighted average rate of interest was 12.5 percent. The weighted average seasoning of the pool is 7 months, with maximum seasoning of 9 months and minimum seasoning of 5 months. As on the pool cut-off date of 31 August 2019, there were no overdues from the designated loans of the pool.

However, the concentration risks in the pool is significant given that these are wholesale loans provided to NBFCs. The top three loans account for 47.7% of the pool principal.

### **Credit Enhancements (CE)**

The transaction is supported in the form of

- i) Cash collateral of in the form of fixed deposit with Utkarsh Small Finance Bank Limited, equivalent to 10 percent of pool principal in the name of the originator with a lien marked in favour of the trustee for SME190930 SERIES 1.
- ii) Over collateralisation of 10 percent of the original principal amount; and
- iii) Excess interest spread (EIS) of 4.46 percent of the pool principal amount.

### **Transaction Structure**

The provisional rating of SME190930 SERIES1 addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date of 10 November 2021, in accordance with transaction documentation.

### **Brief Methodology:**

Acuité has arrived at average base case delinquency estimate in respect of the loan assets being securitised of 2.4 percent. Acuité has applied appropriate stress factors to the base estimates to arrive at the possible delinquencies and estimate of the credit enhancement required.

### **Legal Assessment:**

It is based on the draft terms, the final legal opinion is awaited. However, based on the draft documents submitted to Acuité the legal opinion shall cover, adherence to RBI guidelines, true sale, constitution of the trust, bankruptcy, bankruptcy remoteness of assets, bankruptcy remoteness of the credit enhancement (fixed deposit) from seller, adherence of minimum retention requirement.

### **Key Risks**

- **Counterparty Risks:** The risk of delinquencies is significantly mitigated, considering the credit profile of the constituents of the pool. The exposures covered under this pool form a minuscule portion (i.e. 1-3%) of the overall borrowings in respect of each NBFC. Hence even in the unlikely event of a refinancing requirement, no major challenges are foreseen.
- **Concentration Risks:** Since the underlying assets are in the nature of wholesale loans to NBFCs, the concentration risks remain and have been addressed through suitable cushion on base loss estimates.
- **Prepayment Risk:** The prepayment risks are mitigated considering the size of the loans vis-à-vis the overall borrowings of these NBFCs. Secondly the presence of prepayment penalty provisions is likely to act as a mitigant to prepayment risks.
- **Servicing Risk** Considering the limited size of the pool, and relative ease in servicing, any operational risks related to servicing of the pool are significantly mitigated.

### **Liquidity Position – Adequate**

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to 10.00% of the pool principal over and above the internal collateralisation through both principal and excess interest spread amounting to 14.01% of the pool principal.

### **Key Rating sensitivity**

- Collection performance of the underlying pool
- Credit quality of the underlying borrowers

- Decrease in cover available for PTC payouts from the credit enhancement

#### Key Financials – Originator (UGRO Capital Limited)

Particulars	Unit	FY19
Total Assets	Rs. Cr.	669.98
Total Income*	Rs. Cr.	41.80
PAT	Rs. Cr.	1.46
Net Worth	Rs. Cr.	651.59
Return on Average Assets (RoAA)	(%)	0.41
Return on Average Net Worth (RoNW)	(%)	0.42
Total Debt/Tangible Net Worth (Gearing)	Times	0.02
Gross NPA	(%)	NIL
Net NPA	(%)	NIL

\*Total income equals to Net interest income plus other income

Previous year figures are not reflected in the table since, the change in shareholding and management from Chokhani Securities Limited took place in FY2019.

#### Any other information

Not Applicable

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Securitised transactions - <https://www.acuite.in/view-rating-criteria-48.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

#### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
04 <sup>th</sup> Oct, 2019	Pass Through Certificates	Long Term	24.38	ACUITE PROVISIONAL A-(SO) (Assigned)

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
SME190930 Series1	30 September, 2019	10.48	10 October 2021	24.38	ACUITE A-(SO) / (Assigned: Converted from Provisional to Final rating)

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**About Acuité Ratings & Research:**

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