

Press Release

Ugro Capital Limited SME190930 Series1 (Trust)

November 18, 2020

Rating Reaffirmed



Pass Through Certificate*	Rs. 8.84 Cr
Long Term Rating	ACUITE A-(SO) (Reaffirmed)

*Refer annexure for details

Rating Rationale

Acuite has affirmed the 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 initial pool principal outstanding of Rs. 27.09 Cr (including Rs. 2.71 Cr of over collateralisation) and initial PTC amount of Rs. 24.38 Cr. As on end September 2020, the pool principal outstanding is Rs. 11.36 Cr (including over collateralisation), while the PTC amount outstanding stood at Rs. 8.84 Cr.

The rating affirmation is based on the strength of cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) Cash collateral provided by the Originator, (ii) Over-collateralisation and, (iii) Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure. The agency has reviewed the pool performance since the transaction's inception till the payouts in October 2020 and also taken into account the impact of Covid-19 on collections.

About the Originator (Ugro Capital Limited)

Ugro, originally incorporated as Chokhani Securities Limited in 1993, is a systemically important non-deposit taking non-banking financial company (ND-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. The company held Asset Under Management (AUM) of Rs. 861 Cr. as of March 31, 2020. For the latest rating rationale, refer to <https://www.acuite.in/documents/ratings/revised/27695-RR-20200508.pdf>.

Assessment of the pool:

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

The number of loans in the pool has reduced to 6 as of October 2020 payout month from 7 as of the assignment of the final ratings. As of end September 2020, the pool had a weighted average seasoning of 19.8 months, with a maximum seasoning of 22.4 months and minimum seasoning of 18.7 months. The pool had been amortised by 58.08%, signifying a steady repayment track record of underlying borrowers. 90 days past due (dpd) delinquent loans were 0.0% of the original principal outstanding and 0.0% of the current principal outstanding, as of end September 2020, indicating limited delinquency risks.

The concentration risk in the pool is nevertheless, significant given that these are relatively large ticket loans provided to NBFCs. The top two loans account for 44.85% of the pool principal. However, this risk is partially mitigated by the proven repayment track record of the NBFC borrowers and their current steady financial performance.

Impact of COVID19

As per end September 2020, there has been no utilisation of external CE in the transaction, which points to a resilient pool performance during the pandemic, when business disruptions occurred to varying degrees in the economy and collections in NBFCs had got impacted both due to lockdowns and loan moratorium. Additionally, drawing comfort from the steady collection efficiency displayed by the transaction during this period, Acuite expects no utilisation of external CE in the short to medium term.

However, the collection efficiencies in the pool displayed a slight downward trend in May 2020, June 2020 and July 2020 payouts, primarily because of moratorium. But the collection efficiency returned to normal level from August 2020 payout onwards. The agency anticipates the collection efficiency to remain stable and healthy for the remaining lifetime of the transaction.

Credit Enhancements (CE)

The transaction is supported by internal and external CEs. The internal CE is in the form of over collateralisation and EIS as detailed below:

- i) Over collateralisation of 10 % of the original principal amount; and
- ii) Excess interest spread (EIS).

The transaction is furthermore supported by external CE in the form of fixed deposit with Utkarsh Small Finance Bank Limited in the name of the originator with a lien marked in favour of the trustee for SME190930 SERIES 1. Because of pool amortisation, the external CE in the transaction has increased to 24.2 % of the current principal outstanding as of October 2020 payout month from 10.0% of the original principal outstanding.

Transaction Structure

The transaction is structured at par. The 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 March 2022, in accordance with the transaction documentation.

Brief Methodology:

During the initial rating, Acuite arrived at average base case delinquency estimate in respect of the loan assets being securitised of 2.4%. Acuite has applied appropriate stress factors to the base estimates to arrive at the possible delinquencies and estimate of the credit enhancement required. These stress factors include, but are not limited to, macroeconomic sectoral factors, concentration risk, and risk due to the pandemic.

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 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.
- **Commingling Risk**
The transaction is subject to commingling risk since there is a time gap between last collection date and transfer to payout account.
- **Regulatory Risk**
In the event of a regulatory stipulation impacting the bankruptcy remoteness of the structure, the payouts to the PTC holders may be impacted.

Liquidity Position: Adequate

The liquidity position in the transaction is adequate. The external CE available in the transaction amounts to 24.2% of the current pool principal as of September 2020 collection month over and above the internal collateralisation through both over collateralisation of 10.0% of original POS and EIS.

Key Rating sensitivity

- Collection performance of the underlying pool
- Credit quality of the underlying NBFC borrowers
- Decrease in cover available for PTC payouts from the credit enhancement

Material Covenant

The following covenant is included in the transaction structure: The collection in month M will be deposited into the Collection and Payout Account (CPA) in the month (M+1), two days prior to the relevant payout date.

Key Financials – Originator (UGRO Capital Limited)

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	1,212.46	868.47
Total Income*	Rs. Cr.	73.67	32.18
PAT	Rs. Cr.	19.51	3.94
Net Worth	Rs. Cr.	911.06	611.55
Return on Net Worth (RoNW)	(%)	2.14	0.65
Net debt to equity ratio	Times	0.28	NA**
Net NPA to Net Advances	(%)	0.54	NIL

*Total income equals to Net interest income plus other income

** The firm had not borrowed much in earlier years as compared to financial year 2019-20 and also in earlier years the firm had deployed funds in fixed deposits of short term nature as compared to financial year 2019-20, hence the ratios are not comparable.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Securitised transactions - <https://www.acuite.in/view-rating-criteria-48.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
27 th Nov, 2019	PTC	Long Term	24.38	ACUITE A-(SO) (Assigned: Converted from Provisional to Final rating)
04 th Oct, 2019	PTC	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 Series I	30 th Sep 2019	10.48	10 March 2022	8.84	ACUITE A- (SO) (Reaffirmed)

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About Acuité Ratings & Research:

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