

Press Release

UGRO CAPITAL LIMITED SME200130 Series2 (Trust)

July 02, 2020



Rating Assigned; Under Watch with Developing Implications

Pass through Certificate*	Rs. 28.01 Cr.
Long Term Rating	ACUITE AA- (SO); Under Rating Watch with Developing Implications (Assigned: Converted from Provisional to Final rating)

* Refer Annexure for details

Rating Rationale

Acuite has converted the provisional rating to final rating of '**ACUITE AA-(SO)**' (read as **ACUITE double A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) issued by SME200130 Series2 (The Trust) under a securitisation transaction originated by Ugro Capital Limited (Ugro) (The Originator). The PTCs are backed by a pool of unsecured loans with principal outstanding of Rs. 31.12 Cr (including Rs. 3.11 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 January 31, 2020. Acuite has placed the ratings '**Under Watch with Developing Implications**'.

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 SME200130 Series2 PTC and,
- (iii) Entire Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure.

The rating assigned is finalised based on fulfilment of conditions under the structure, copies of legal documents executed in ac will be contingent to fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by Acuite.

Reason for placing the Rating on 'Watch with Developing Implications'

The rating is placed under Watch due to limited clarity on the impact of the lockdowns and economic conditions in the country on the credit profile of the borrowers. The extent of impairment, if any on the borrower profile is presently unascertainable, consequently the extent of additional moratorium required to be extended to the borrowers in the pool and cashflows to investors is presently unclear.

The pool comprises of 179 contracts of unsecured loans across various sectors. The borrowers mainly comprise Small and Medium Enterprises (SMEs) from manufacturing and services sectors. The outbreak of COVID-19 virus and the continued lockdowns have significantly impacted the cashflows of borrowers across the country. Subsequent to the dispensation allowed by RBI allowing moratorium to borrowers, lenders such as Ugro extended moratorium to its borrowers. Out of the 179 borrowers in the pool (1 account has been foreclosed due to prepayment) 156 borrowers comprising ~89% of the pool have availed the moratorium upto May, 2020. The moratorium allowed in the first phase upto have been supported by the PTC investors. The PTC investors approval was documented vide agreement dated 04th May, 2020. Subsequently, after May, 40-50% of the pool borrowers have requested for an additional moratorium upto August-2020. While Ugro is still in the process of assessing the additional moratorium request till August on a case to case basis, there is a heightened possibility that many of these borrowers may require additional moratorium. This is likely to impact the cashflows of the pool versus the scheduled cashflows.

Acuite believes, that the extent of impairment in the pool quality, if any, will be visible only after expiry of the moratorium period. The ability to maintain optimal collection efficiency commensurate with the pool payouts will be a critical determinant. Since there is limited clarity on the extent of potential stress in the pool Acuite has placed the Ratings on 'Watch with Developing Implications'. The watch will be resolved after the expiry of the moratorium period based on the movement in collection efficiency.

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-20200508.pdf>

Assessment of the pool:

Ugro's total exposure towards unsecured loans was Rs. 125.03 Cr i.e. 17.8% of the total loan book as on 30th November, 2019. The current pool being securitised comprises ~24.9% of the overall unsecured loan exposures. The pool comprises 180 individual borrowers, with an initial portfolio of Rs. 37.73 Cr. (original amount). The break-up of the pool is as under:

Constitution	No of Borrowers	Portfolio outstanding (Rs. in Cr.)	% of Portfolio o/s
Company	64	12.62	40.6%
Proprietorship	63	9.53	30.6%
Partnership	38	6.69	21.5%
Others (LLP, Society, Individuals)	15	2.28	7.3%
Total	180	31.12	

The borrowers selection has been based on strict underwriting criteria and acceptability as per a scorecard, which has been developed by the company, with support from external agencies. The borrowers are from the eight specifically identified sectors which are Ugro's prime lending segments. The pool is moderately dispersed among these eight sectors with light engineering contributing to 27% of the pool, followed by food processing industry contributing 22% of the pool.

As per the product criteria shared by the originator, the borrowers need to have at least two year vintage in the line of trade and a prior track record of borrowing.

The underlying term loans are repayable monthly and are unsecured. The original maturities of these loans are ranging 12-36 months. The loans have fixed interest rates with weighted average yield of ~19%. The loans were sanctioned with a prepayment penalty clause, which acts as a protection for any future prepayments/ balance transfers. As on the cut-off date the average outstanding per borrower was Rs. 17.29 lakhs with lowest outstanding of Rs. 1.9 lakh and highest outstanding of Rs. 22.8 lakhs. The portfolio is granular the top 10 borrowers accounting for Rs. 22.63 lakhs i.e. 7.27% of the portfolio outstanding.

As on the pool cut-off date, January 24, 2020, the pool was 17.52% amortised with an aggregate principal outstanding balance of Rs. 31.12 Cr. The average outstanding loan balance was Rs. 17.29 lakhs and weighted average rate of interest was 19%. The weighted average seasoning of the pool is 6 months, with maximum seasoning of 11 months and minimum seasoning of 3 months. As on the pool cut-off date of 24 January 2020, there were no overdues from the designated loans of the pool.

Credit Enhancements (CE)

The transaction is supported in the form of

- Cash collateral of in the form of fixed deposit with equivalent to 10.00 percent (assumed to be kept with a minimum 'AA' rated bank) of the overall pool principal in the name of the originator with a lien marked in favour of the trustee for Series2.
- Over collateralisation of 10 percent of the original principal amount; and
- Excess interest spread (EIS) of 12.23 percent of the initial pool principal amount.

Transaction Structure

The transaction is structured at par. Collections of a particular month will be utilized to make promised interest and expected principal payouts to Series 2 PTCs and expected interest payment to Series 2 PTCs. Any excess amount after making payment to Series 2 will flow back to the originator on a monthly basis. In case of shortfall in payment to Series 2 PTCs, cash collateral will be utilized for making principal payouts.

Brief Methodology:

Acuite has arrived at a base case delinquency estimate of 3.00 – 4.00 percent in respect of the loan assets being securitised. It has applied appropriate stress factors to the base loss figures to arrive at the final loss estimates and consequently the extent of credit enhancement required. The final loss estimates also considers the risk profile of the particular asset class i.e. unsecured loans, the borrower strata, economic risks and the demonstrated collection efficiency over the past eleven months. Acuite has also considered the low track record of operations of the originator and certain pool parameters while arriving at the final loss estimate.

Legal Assessment:

It is based on the draft terms, the final legal opinion is awaited. However, based on the draft documents submitted to Acuite 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 loans are essentially unsecured business loans with ticket sizes ranging between Rs. 2 lakhs to Rs. 25 lakhs. 91% of the pool comprised of interest rated ranging between 18-20%. Considering their vulnerable credit profile of the borrowers, the risk of delinquencies/defaults are elevated. These risks of delinquencies are partly mitigated, considering the efficacy of Ugro's platform in originating and monitoring exposures based on various surrogates and variables, coupled with the systems and process put in place for post disbursement monitoring. Besides the monitoring by its internal collection team, the company has tied up with two external agencies to monitor and follow up for the collections of these retail pools. The borrower class typically comprise of small traders who are engaged in activities such as light engineering, Hospitality, Electrical Equipment's & components in semi-urban and urban areas. The credit profile of such borrowers will depend on the level of economic activities in their area of operations, this in turn will have an impact on the pool cashflows.

- **Concentration Risks:**

Since the pool is entirely granular, i.e. underlying assets in the pool are in nature of retail loans to 180 individual borrowers, hence the risk is significantly mitigated. Geographically, the pool is concentrated in the state of Gujarat with ~27% of the pool followed by Telangana at 17%, the remaining pool was spread across six other states.

- **Prepayment Risk:**

The pool is subject to prepayment risks since rate of interest is significantly high and borrowers may be inclined to shift to low cost options (based on availability). Prepayment risks are partially mitigated by prepayment penalty levied by the company for pre closures. In case of significant prepayments the PTC holders will be exposed to interest rate risks, since the cash flows from prepayment will have to be deployed at lower interest rates.

- **Servicing Risk**

There is limited track record of servicing PTC's, since this is the second PTC transaction for Ugro. Since the current pool of borrowers in the transaction is retail in nature, there are significant requirements in terms of monitoring, collections and servicing the payouts. The on-going restrictions on movement of people and infrastructural challenges could result in logistical challenges in servicing of the pool transactions.

- **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 cash collateral available in the transaction amounts to 10.00% of the pool principal. The PTC payouts will also be supported by an internal credit enhancement in the form of over collateralisation (10% of pool principal) and excess interest spread (12.23% of pool principal).

Key Rating sensitivity

- Sharp increase in delinquencies i.e. PAR 60+ days past due exceeding 4% in two consecutive months.
- Decline in Overcollateralisation (OC) below 1.05x (as defined by Total POS/Series2 POS) for two

consecutive months.*

- Decline in credit quality of originator which could impact the servicing of the PTC, in the opinion of the rating agency.

*Necessary data to be provided by the originator or trustee on a monthly basis

Key Financials – Originator (UGRO Capital Limited)

Particulars	Unit	FY20 (Prov)	FY19 (Actuals)
Total Assets	Rs. Cr.	1199.97	669.98
Total Income*	Rs. Cr.	91.96	41.80
PAT	Rs. Cr.	8.85	1.46
Net Worth	Rs. Cr.	910.16	651.59
Return on Average Assets (RoAA)	(%)	0.52	0.41
Return on Average Net Worth (RoNW)	(%)	0.63	0.42
Total Debt/Tangible Net Worth (Gearing)	Times	0.28	0.02
Gross NPA	(%)	0.84	NIL
Net NPA	(%)	0.09	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-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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Size of the Issue (Rs. Cr.)	Ratings/Outlook
31 January, 2020	Pass Through Certificates	10.00	28.01	ACUITE PROVISIONAL AA-(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
SME2001 30 Series2	30 January, 2020	10.00	10 August 2022	28.01	ACUITE AA-(SO); Under Watch with Developing Implications (Assigned Converted from Provisional to Final)

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About Acuité Ratings & Research:

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