

Press Release

Ugro Capital Limited – SME200130 – Series 2

March 16, 2021

Rating Reaffirmed



Pass Through Certificates (PTCs)	Rs. 17.07 Cr
Long Term Rating	ACUITE AA-(SO) (Reaffirmed; removed from Under watch with Developing Implications)

Rating Rationale

Acuite has reaffirmed the rating of '**ACUITE AA-(SO)**' (read as **ACUITE double A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) issued by SME200130 Series 2 (The Trust) of Rs. 17.07 Cr (as of Feb 2021 payout) under a securitisation transaction originated by Ugro Capital Limited (Ugro) (The Originator). Acuite has also removed the transaction from Under watch with Developing Implications. The PTCs are backed by a pool of loans provided to NBFCs with principal outstanding of Rs. 20.7 Cr as of February 2021 payout month.

The rating of SME200130 SERIES2 addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date in accordance with transaction documentation. The rating reaffirmation and removal from Under watch with Developing Implications 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 Rs. 3.12 Cr or 15.10% of the current pool principal outstanding,
- (ii) Over collateralisation of Rs 3.59 Cr,
- (iii) Entire Excess Interest Spread (EIS) in the structure, and the integrity of the legal structure.

The rating reaffirmation and removal from Under watch with Developing Implications also take into account the significant pool amortisation of 33.61% with NIL utilisation of cash collateral, improving collection efficiency post COVID-19, and the increase of cash collateral level to 15.10% from 10.00% of the current pool principal outstanding. Although the rated pool's 90+dpd has seen an upward trend in the last two months (3.68% of original POS as of February 2021 payout), high credit enhancement minimize the residual risks in the transaction. Acuite will nevertheless, continue to monitor the transaction's asset quality on a regular basis.

About the Originator (Ugro Capital Limited)

Ugro, was originally incorporated as Chokhani Securities Limited in 1993. It is 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. Ugro's equity shares, and non-convertible debentures are listed on the Bombay Stock Exchange (BSE).

Ugro is headed by Mr. Shachindra Nath, a seasoned finance professional, with more than two decades of experience in the financial services sector. He is the Executive Chairman and Managing Director of the company. Ugro's registered office is at Mumbai and it has branches across the nine metro cities in the country. Ugro lends to the MSME segment 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's capital adequacy ratio stood at 85.77 percent as on September 30, 2020 and 88.25 percent as on March 31, 2020 coupled with low gearing of 0.41 times as on September 30, 2020 and 0.28 times March 31, 2020. Ugro has a networth of Rs. 943.92 Cr. as on September 30, 2020 out of which it has built on-book loan portfolio of Rs. 932.09 Cr. The loan book stood at Rs. 79.57 Crore as on March 31, 2019 which has grown to Rs. 860.90 Crore as on March 31, 2020 and Rs. 977.96 Crore as on September 30, 2020. For the latest rating rationale, refer to <https://www.acuite.in/documents/ratings/revised/27695-RR-20201224.pdf>

The 90+dpd for Ugro's unsecured SME segment stood at 1.98% as of January 31, 2021 as against 0.91% as of November 30, 2020. The slight increase in the delinquencies can be attributed to the impact of Covid-19. The portfolio is spread across Karnataka (17.91%), Delhi (14.82%), Gujarat (13.54%) and 13 other states and UTs.

Assessment of the pool:

Ugro's total portfolio exposure towards unsecured loans was Rs. 330.94 Cr as on January 31, 2020. Of the total 180 loans during initial rating of the pool, 64 were private limited companies, comprising 41% of the pool, 63 were proprietary concern, comprising 31% of the pool followed by 38 partnership firms, comprising of 21.5% of the pool while remaining pool constituted of 12 individuals, 2 societies and 1 LLP. The borrowers had at least two years' vintage in the line of trade and had track record of borrowings.

As of January 2020 collections, the pool comprises of 152 borrowers, with a pool principal outstanding of Rs. 20.7 Cr. The underlying term loans are repayable monthly and are unsecured. The original maturities of these loans range between 18-36 months, with an average of 31 months. The pool has amortised by 33.61% with NIL utilisation of credit enhancement. The cash collateral, which was 10.00% of the POS during initial rating, has increased to 15.10% of the current POS as per February 2021 payout. The average outstanding loan balance was Rs. 13.59 lakhs and average rate of interest was 19.15%. The weighted average seasoning of the pool is 19.75 months, with maximum seasoning of 25 months and minimum seasoning of 6 months. The pool is spread across Gujarat (25.83%), Telangana (16.37%), Delhi (14.48%), and West Bengal, Karnataka, Rajasthan, Tamil Nadu and Maharashtra constituting the rest. The 90+dpd stood at 3.68% of the original POS, while the 180+dpd stood at 0.71% of the original POS. While as of March 2020 88.5% of the pool was under moratorium, as of August 2020, 62.5% of the pool was under moratorium.

Credit Enhancements (CE)

The transaction is supported in the form of

- (i) Cash collateral of Rs. 3.12 Cr or 15.10% of the current pool principal outstanding,
- (ii) Over collateralisation of Rs 3.59 Cr,
- (iii) Entire Excess Interest Spread (EIS) in the structure, and the integrity of the legal structure.

Transaction Structure

The rating of SME200130 SERIES2 addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date in accordance with transaction documentation.

Assessment of Adequacy of Credit Enhancement:

Acuite has arrived at a base case delinquency estimate of 0.5%-1.5% in respect of the loan assets being securitised. Acuite has further 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 consider the risk profile of the particular asset class, the borrower strata, economic risks and the demonstrated collection efficiency over the past eleven months.

Brief Methodology:

Acuite has arrived at average base case delinquency estimate of 0.5%-1.5% in respect of the unsecured loan assets being securitised. Acuite has applied appropriate stress factors to the base estimates to arrive at the possible delinquencies and estimate of the credit enhancement required.

Legal Assessment:

The rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, servicing agreement, legal opinion, accounts agreement, assignment agreement and other documents relevant to the transaction.

Key Risks

- **Counterparty Risks:**

The loans are essentially unsecured loans with ticket sizes ranging between Rs. 2.23 lakhs to Rs. 25.58 lakhs. Considering the vulnerable credit profile of the borrowers, the risk of delinquencies/defaults are elevated. These risks of delinquencies are partly mitigated, considering the efficacy of the originator's underwriting processes, coupled with the systems and process put in place for post disbursement monitoring.

- **Concentration Risks:**

Since the pool consists of 152 borrowers, concentration risks remain. However, the significant amortisation of the pool and the track record so far of the borrowers mitigate this risk to some extent.

- **Prepayment Risk:**

The pool is subject to prepayment risks since rate of interest is relatively high and borrowers may be inclined to shift to low cost options (based on availability). 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 the originator with Acuite.

- **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 15.10% of the pool principal over and above the internal credit enhancement through both over collateralisation and excess interest spread.

Material Covenants

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).

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	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	1190.90	866.08
Total Income*	Rs. Cr.	91.47	42.89
PAT	Rs. Cr.	19.52	7.61
Net Worth	Rs. Cr.	921.52	832.90
Return on Average Assets (RoAA)	(%)	1.90	1.68
Return on Average Net Worth (RoNW)	(%)	2.23	1.74
Total Debt/Tangible Net Worth (Gearing)	Times	0.28	0.01
Gross NPA	(%)	0.95	0.00
Net NPA	(%)	0.57	0.00

*Total income equals to Net interest income plus other income

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 the Instruments/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
July 02, 2020	Pass through Certificate	Long term	28.01	ACUITE AA-(SO) Under Rating Watch with Developing Implications (Assigned: Converted from Provisional to Final rating)
January 31, 2020	Pass through Certificate	Long term	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
SME200130 Series 2	January 30, 2020	10.00	March 2023	17.07	ACUITE AA-(SO) (Reaffirmed; removed from Under watch with Developing Implications)

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About Acuité Ratings & Research:

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