

Press Release

Ugro Capital Limited – SME200130 – Series 2

March 11, 2022

Rating Upgraded



Pass Through Certificates (PTCs)	Rs. 2.76 Cr
Long Term Rating	ACUITE AA(SO) (Upgraded)

Rating Rationale

Acuite has upgraded the rating to '**ACUITE AA(SO)**' (read as **ACUITE double A (Structured Obligation)**) from '**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. 2.76 Cr (as of Feb 2022 payout) under a securitisation transaction originated by Ugro Capital Limited (Ugro) (The Originator).

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 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
- (ii) Over collateralisation of Rs 3.11 Cr,
- (iii) Entire Excess Interest Spread (EIS) in the structure

The rating upgrade take into account the significant pool amortisation of 83.30% with no utilisation of cash collateral, improving collection efficiency post Covid-19, and the increase of cash collateral level to 60.03% from 10.00% of the current pool principal outstanding. The 90+dpd improved to 2.13% as of February 2022 from 2.34% in the previous month, with the 180+dpd at 1.65% as of February 2022, which are within the initial assumptions.

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 control and management, the company was renamed as UGRO Capital Limited. UGRO's equity shares, commercial paper and non-convertible debentures are listed on the Bombay Stock Exchange (BSE). The company's equity is also listed on the National Stock Exchange (NSE).

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 Promoter, Executive Chairman and Managing Director of the company. UGRO is a Mumbai based company (registered office). It has more than 75 branches across the country as on December 31, 2021. UGRO lends to the MSME segment in nine specifically identified sectors i.e. Healthcare, Education, Chemicals, Food Processing/FMCG, Hospitality, Electrical Equipment's and Components, Auto Components, Light Engineering and Micro-Enterprise segment. UGRO has built diversified distribution channels which consist of Branch led channel, Ecosystem consisting of Supply Chain & Machinery Finance, Partnership & Alliances for Co-lending with smaller NBFCs & FinTechs & Digital Channel.

Assessment of the pool:

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 February 2022, the pool comprises of 84 borrowers, with a pool principal outstanding of Rs. 5.20 Cr. The underlying loans are repayable monthly and are unsecured. The pool has amortised by 83.30% with no utilisation of credit enhancement. The cash collateral, which was 10.00% of the POS during initial rating, has increased significantly to 60.03% of the current POS as of February 2022. The 90+dpd improved to 2.13% as of February 2022 from 2.34% in the previous month, with the 180+dpd at 1.65% as of February 2022, which are within the initial assumptions.

Credit Enhancements (CE)

The transaction is supported in the form of

- (i) Cash collateral of Rs. 3.12 Cr
- (ii) Over collateralisation of Rs 3.11 Cr,
- (iii) Entire Excess Interest Spread (EIS) in the 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 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.

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. 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 84 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
Even if the base case delinquency estimate is increased by 10%, the rating will remain at the same level.

Outlook: Not Applicable

Key Financials – Originator (UGRO Capital Limited)

	Unit	FY2021	FY2020
Total Assets	Rs. Cr.	1707.96	1190.90
Total Income (Net of Interest Expense)	Rs. Cr.	108.78	91.47
PAT	Rs. Cr.	28.73	19.52
Net Worth	Rs. Cr.	952.44	921.52
Return on Average Assets (RoAA)	(%)	1.98	1.90
Return on Average Net Worth (RoNW)	(%)	3.07	2.23
Total Debt/Tangible Net Worth (Gearing)	Times	0.80	0.28
Gross NPAs	(%)	2.72	0.95
Net NPAs	(%)	1.75	0.57

*Total income equals to Net interest income plus other income

Status of non-cooperation with other CRA

None

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
March 16, 2021	Pass through Certificate	Long term	17.07	ACUITE AA-(SO) (Reaffirmed; removed from Under watch with Developing Implications)
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	2.76	ACUITE AA(SO) (Upgraded)

Contacts

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About Acuite Ratings & Research:

Acuite Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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