

Press Release

Ugro Capital Limited – SME200130 – Series 2

January 19, 2023

Rating Withdrawn



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|----------------------------|-------------------|
| Pass Through Certificates (PTCs) | 2.76 | ACUITE AA SO Withdrawn | - |
| Total Outstanding Quantum (Rs. Cr) | 0.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 2.76 | - | - |

Rating Rationale

Acuite has withdrawn the long term rating of '**ACUITE AA (SO)**' (read as **ACUITE double A (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 2.76 Cr (as of Feb 2022 payout) issued by SME200130 Series 2 (The Trust) under a securitisation transaction originated by Ugro Capital Limited (UGRO).

The transaction has been paid in full. It has also been redeemed and all the contractual obligations and pay-outs to the investors have been duly completed. Hence, the rating is being withdrawn. The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating and pursuant to a request received from the company in this regard.

The rating of SME200130 Series 2 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

About the Originator

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 Vice Chairman and Managing Director of the company. UGRO is a Mumbai based company (registered office). It has more than 95 branches across the country as on September 30, 2022. 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 comprised 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 Series 2 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

Acuité has arrived at a base case delinquency estimate of 0.5 percent - 1.5 percent 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.

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

Counter Party 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.

Servicing Risks

There is limited track record of servicing PTC's, since this is the second PTC transaction for the originator with Acuité.

Regulatory Risks

In the event of a regulatory stipulation impacting the bankruptcy remoteness of the structure, the payouts to the PTC holders may be impacted.

Prepayment Risks

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.

Commingling Risk

The transaction is subject to commingling risk since there is a time gap between last collection date and transfer to payout account.

Rating Sensitivity

Not applicable

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).

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.

Outlook : Not Applicable

Key Financials - Originator

| Particulars | Unit | FY22 (Actual) | FY21 (Actual) |
|------------------------------------|---------|------------------|------------------|
| Total Assets | Rs. Cr. | 2810.41 | 1707.96 |
| Total Income* | Rs. Cr. | 176.00 | 108.78 |
| PAT | Rs. Cr. | 14.55 | 28.73 |
| Net Worth | Rs. Cr. | 966.56 | 952.44 |
| Return on Average Assets (RoAA) | (%) | 0.64 | 1.98 |
| Return on Average Net Worth (RoNW) | (%) | 1.52 | 3.07 |
| Debt/Equity | Times | 1.86 | 0.80 |
| Gross NPA (Owned Book) | (%) | 2.30 | 2.70 |
| Net NPA (Owned Book) | (%) | 1.70 | 1.70 |

*Total income equals Net Interest Income plus other income.

**As per Acuite calculations; RoAA based on On balance sheet portfolio

Status of Non Cooperation with Previous CRA

None

Any Other Information

None

Applicable Criteria

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

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|---|
| 11 Mar 2022 | Pass Through Certificates | Long Term | 2.76 | ACUITE AA (SO) (Upgraded from ACUITE AA-(SO)) |
| 16 Mar 2021 | Pass Through Certificates | Long Term | 17.07 | ACUITE AA-(SO) (Reaffirmed) |
| 02 Jul 2020 | Pass Through Certificates | Long Term | 28.01 | ACUITE AA-(SO) (Ratings Under Watch) |
| 12 Jun 2020 | Pass Through Certificates | Long Term | 28.01 | ACUITE Provisional AA-(SO) (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------|----------------|--------------------------|------------------|-------------|---------------|------------------|-------------------|----------------------------|
| Not Applicable | Not Applicable | Pass Through Certificate | 30 Jan 2020 | 10.00 | 10 Mar 2022 | Highly Complex | 2.76 | ACUITE AA SO Withdrawn |

Contacts

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|---|--|
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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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