

Press Release

NFA INDITRADE SME A1 (Trust) (Originator; Inditrade Fincorp Limited)

March 19, 2020

Rating Assigned



Pass through Certificate*	Rs. 32.17 crore
Long Term Rating	ACUITE PROVISIONAL A- (SO) (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned rating of '**ACUITE PROVISIONAL A-(SO)**' (read as **ACUITE Provisional A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) issued by NFA INDITRADE SME A1 (The Trust) (Originator under a securitisation transaction originated by Inditrade Fincorp Limited (The Originator). The PTCs are backed by a pool of unsecured loans with principal outstanding of Rs. 35.76 crore (including Rs. 3.59 crore of over collateralisation).

The provisional rating is based on the strength of cash flows from the selected pool of contracts and the credit enhancement is available in the form of

- (i) Cash collateral of Rs. 3.57 crore at 10.00 percent of the pool principal to be provided by the Originator,
- (ii) Over collateralisation of 10.04 percent of the pool principal for NFA INDITRADE SME A1 PTC and,
- (iii) Entire Excess Interest Spread (EIS) in the structure (9.12 percent of the pool principal); and the integrity of the legal structure.

The final ratings will be contingent to fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by Acuite.

About the Originator (Inditrade Fincorp Limited)

Inditrade Fincorp Limited (IFL, erstwhile JRG Fincorp Limited) is an NBFC-ND engaged in extending loans against agri-commodities since 2016, commenced MSME lending since 2018 and digital lending since 2019. The company has its head office in Mumbai and primarily operates through a network of 4 branches across 4 states primarily in the southern and western region of India. IFL's total loan book stood at Rs. 183.28 crore as on December 31, 2019 with single largest segmental exposure towards unsecured MSME loans at Rs. 76.97 crore, the balance loan book comprised of Commodity Funding, loan to Inditrade Business Consultants Limited, Loan against Property and Loan against Shares. The ticket size of MSME portfolio ranges between Rs. 2 lakhs to Rs. 50 lakhs. IFL has an outstanding rating of ACUITE BBB+/ Stable.

For the latest rating rationale, refer to <https://www.acuite.in/documents/ratings/revised/27851-RR-20191206.pdf>

About the Group

The flagship of the Inditrade Group is Inditrade Capital Limited (ICL; formerly known as JRG Associates). The company was taken over by the present promoter Mr. Sudip Bandyopadhyay in 2015 by acquiring majority stake from Barings Private Equity Partners. Inditrade Capital Limited is listed on BSE with promoter and promoter group holding 71.8 percent as on September 30, 2019

The group is engaged in commodity financing and derivatives & commodity trading since 2016, micro finance lending since 2017, MSMEs lending since 2018 and digital lending in 2019. The group plans to foray in housing finance operations on receipt of HFC license. ICL operates through 7 subsidiaries namely Inditrade Fincorp Limited (erstwhile JRG Fincorp Limited), Inditrade Microfinance Limited, Inditrade Business Consultants Limited, Inditrade Commodities Trading Limited, Inditrade Derivatives and Commodities Limited, Inditrade Insurance & Broking Private Limited and Inditrade Housing Finance Limited. The group's consolidated lending AUM stood at Rs. 468 Cr.as on September 30, 2019.

Assessment of the pool:

The current pool of Rs. 35.76 crore (including over collateralization of Rs. 3.59 crore) being securitised comprises ~46.46 percent of IFL's overall unsecured MSME loan exposures. The pool comprises 365 individual borrowers. The top three sectors in which the borrowers are engaged in is Hospitality (25 percent of the pool), Food processing (20 percent of the pool) and Electrical equipment and components (14 percent of the pool) and balance in assorted small business activities.

The underlying term loans are repayable on daily, weekly, fortnightly and monthly basis and are unsecured in nature. The original maturities of these loans range between 12-24 months. The loans have fixed and reducing interest rates. The average outstanding per borrower was Rs. 9.80 lakhs with lowest outstanding of Rs. 3.229 and highest outstanding of Rs. 31.85 lakhs. The portfolio is granular with the top 10 borrowers accounting for Rs. 2.53 crore i.e. 7.08 percent of the portfolio outstanding.

As on the pool cut-off date, January 31, 2020, the pool was 42.46 percent amortised with an aggregate principal outstanding balance of Rs. 35.76 crore. The weighted average seasoning of the pool is 8 months, with maximum seasoning of 18 months and minimum seasoning of 3 months. As on the pool cut-off date of 31 January 2020, there were no overdues from the designated loans of the pool.

Credit Enhancements (CE)

The transaction is supported in the form of

- i.) 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.
- ii.) Over collateralisation of 10 percent of the original principal amount; and
- iii.) Excess interest spread (EIS) of 9.12 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 A1 PTCs and expected interest payment to Series A1 PTCs. Any excess amount after making payment to Series A1 will flow back to the originator on a monthly basis. In case of shortfall in payment to Series A1 PTCs, cash collateral will be utilized for making principal payouts. The payouts under Series A1 PTC are expected to end by April 2021, while that of the pool are expected to end by November 2021.

Brief Methodology:

Acuite has arrived at a base case delinquency estimate of 4.0 - 5.0 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 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 limited 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. 4 lakhs to Rs. 50 lakhs. 44.71 percent of the pool comprised of interest rated ranging between 13-15%. 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 IFL'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.

- **Concentration Risks:**

Since the pool is entirely granular, i.e. underlying assets in the pool are in nature of retail loans to 365 individual borrowers, hence the risk is significantly mitigated. Geographically, the pool is concentrated in the state of Maharashtra with ~59% of the pool followed by Telangana at ~30%, the remaining pool was from Karnataka.

- **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 first PTC transaction for IFL.

- **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 (10.04 percent of pool principal) and excess interest spread (9.12 percent of pool principal).

Key Rating sensitivity

- Sharp increase in delinquencies i.e. PAR 90+ days past due exceeding 6% in two consecutive months.
- Decline in Over-collateralisation (OC) below 1.05x (as defined by Total POS/Series A1 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 (Inditrade Fincorp Limited) - Standalone

Particulars	Unit	FY19	FY18
Total Assets	Rs. Cr.	177.8	194.5
Total Income*	Rs. Cr.	22.3	15.4
PAT	Rs. Cr.	9.9	7.1
Net Worth	Rs. Cr.	116.1	106.2
Return on Average Assets (RoAA)	(%)	5.3	4.3
Return on Average Net Worth (RoNW)	(%)	8.9	7.0
Total Debt/Tangible Net Worth (Gearing)	Times	0.4	0.8
Gross NPA	(%)	0	0.3
Net NPA	(%)	0	0.2

**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-17.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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Series A1 PTC	N.A	12.50	N.A	32.17	ACUITE PROVISIONAL A- (SO) (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings 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 6,000 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 Mumbai.

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