

Press Release

Inditrade Fincorp Limited – Newgen 2020 IFL

January 25, 2022



Rating Withdrawn

Pass through Certificate*	Rs. 10.56 Cr
Long Term Rating	ACUITE A-(SO) (Withdrawn)

Rating Rationale

Acuité has withdrawn the long term rating of '**ACUITE A-(SO)**' (**read as ACUITE A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 10.56 Cr issued by Newgen 2020 IFL to final rating under a securitisation transaction originated by Inditrade Fincorp Limited (IFL) (The Originator). The PTCs are backed by a pool of unsecured loans with principal outstanding of Rs. 16.71 Cr, as of January 2021 payout month. The original pool principal was Rs. 35.74 Cr.

The transaction was paid in full, and hence the rating is being withdrawn. The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating and pursuant to a request received from the company in this regard.

The rating was based on the strength of cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) Cash collateral provided by the Originator, (ii) Over-collateralisation and, (iii) Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure.

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 and commenced merchant trade advancing and digital lending since 2019. The company has its head office in Mumbai and primarily operates through a network of 5 branches across 5 states, namely Maharashtra, Tamil Nadu, Kerala, Karnataka and Telangana. ICL holds 57 percent and 43 percent is held by private equity investors Athena India opportunities fund and Pavin Ventures as on March 31, 2020. IFLs AUM stood at Rs. ~174 Cr. as on March 31, 2021.

IFL has an outstanding rating of ACUITE BBB+/Negative. For the latest rating rationale, refer to <https://www.acuite.in/documents/ratings/revised/27851-RR-20220107.pdf>

About the Group

Inditrade Group operates through its flagship company 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 73.4 percent stake from Barings Private Equity Partners.

The group is engaged in commodity financing and derivatives & commodity trading since 2016 and in microfinance lending since 2017. The group has commenced Micro Small and Medium Enterprises (MSME) Lending in 2018 and rural marketing and DSA business. ICL operates through 7 subsidiaries namely Inditrade Fincorp Limited (erstwhile JRG Fincorp Limited), Inditrade Microfinance Limited, Inditrade Business Consultants Limited, Inditrade scalerator limited (erstwhile Inditrade commodities Trading Limited), Inditrade Rural Marketing Limited (erstwhile Inditrade Derivatives and Commodities Limited), Inditrade Insurance & Broking Private Limited and Inditrade Technologies Limited (erstwhile Inditrade Housing Finance Limited). The group's consolidated lending AUM stood at Rs. 302 Cr. as on March 31, 2021.

Inditrade Capital Limited's equity capital is listed on BSE with promoter and promoter group holding 71.8 percent as on March 31, 2021.

Assessment of the pool:

As per initial rating

Originally, the pool of Rs. 35.76 Cr (including over collateralization of Rs. 3.59 Cr) being securitised comprised

of 46.46 % of IFL's overall unsecured MSME loan exposures. The pool comprised of 365 individual borrowers. The top three sectors in which the borrowers are engaged is Hospitality, Food processing and Electrical equipment and components and balance in assorted small business activities. The underlying term loans were repayable on a daily, weekly, fortnightly and monthly basis and are unsecured in nature. The original maturities of these loans ranged 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. Originally, the portfolio was granular with the top 10 borrowers accounting for Rs. 2.53 Cr, i.e. 7.08 % of the portfolio outstanding. The pool was 42.46 % amortised with an aggregate principal outstanding balance of Rs. 35.76 Cr. The weighted average seasoning of the pool was 8 months, with maximum seasoning of 18 months and minimum seasoning of 3 months. There were no overdues from the designated loans of the pool.

As per January 2021 payout

The pool principal outstanding is Rs 16.71 Cr. The pool has a weighted average remaining tenure of 8.34 months, ranging between 1 month to 19 months., and a weighted average seasoning of 12.63 months, with a minimum of 5 months and maximum of 23 months. With a minimum POS of Rs. 8,939 to a maximum POS of Rs. 29.49 lakhs, the average per capita POS stands at Rs. 7.49 lakhs. The credit enhancement build-up has been 21.39% from 10.00% as per the initial rating.

As of Jan 2021 payout the underlying pool in current PTC comprises of unsecured MSME loans extended towards 223 individual borrowers, with an average ticket size of Rs. 0.07 Cr, minimum ticket size of Rs. 0.05 Cr and maximum of Rs. 0.50 Cr. The collection efficiency has been improving, and has increased to 124.8% in Jan 2021 payout from 100.0% in Dec 2020 payout, including overdue collection. After amortizing significantly by 53.25%, the transaction has witnessed NIL utilisation of credit enhancement.

The 90+dpd has risen to 6.03% (Jan 2021 payout) from 0.0% as per Dec 2020 payout, as % of original POS. The delinquency is lower than Acuite's initial default assumption. The cashflows of 22 loans (POS: Rs 2.28 Cr) were restructured post the pandemic. These customers are in the CURRENT bucket. Also, 26 customers were in the 90+dpd bucket.

Adequacy of Credit Enhancement and impact of COVID19

During the pandemic, business disruptions occurred to varying degrees in the economy and collections in the MSME industry had got impacted both due to lockdowns and loan moratorium. Acuité anticipates a probable deterioration in asset quality across all industries due to COVID19, which it has accounted for in its analysis. For this transaction, Acuité expects the external Credit Enhancement to be sufficient over the remaining tenure.

Credit Enhancements (CE)

The transaction is supported in the form of

- i) Cash collateral in the form of fixed deposit of Rs 3.57 Cr (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 % of the original principal amount, as per the initial rating; and
- iii) Excess interest spread (EIS) of 9.12 % of the initial pool principal amount, as per the initial rating.

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 PTCs are expected to end by November 2021.

Assessment of Adequacy of Credit Enhancement:

Acuité has arrived at a base case delinquency estimate of 4.0 - 5.0 % 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, i.e. unsecured loans, the borrower strata, economic risks and the demonstrated collection efficiency over the past eleven months. Acuité has also considered the limited track record of operations of the originator and certain pool parameters while arriving at the final loss estimate. Acuité has accounted for the probable impact of COVID19 in the transaction for its analysis.

Legal Assessment:

The final 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 business loans with ticket sizes ranging between Rs. 4 lakhs to Rs. 50 lakhs. 44.71 % 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 21.39% of the pool principal. The PTC payouts will also be supported by an internal credit enhancement in the form of over collateralisation (10.04 % of pool principal) and excess interest spread (9.12 % of pool principal).

Key Rating sensitivity

- Sharp increase in delinquencies i.e. PAR 90+ days past due exceeding 9% 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

Material Covenants

The following covenant is included in the transaction structure: The purchase consideration to be paid by the issuer to the originator for purchasing the pool is equal to Series A1 issue price.

Outlook: Not Applicable

Key Financials – Originator (Inditrade Fincorp Limited) - Standalone

Particulars	Unit	FY21(Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	227.38	192.19
Total Income*	Rs. Cr.	95.08	46.89
PAT	Rs. Cr.	4.95	10.63
Net Worth	Rs. Cr.	131.43	126.46
Return on Average Assets (RoAA)	(%)	2.36	5.75
Return on Average Net Worth (RoNW)	(%)	3.84	8.77
Total Debt/Tangible Net Worth (Gearing)	Times	0.60	0.37
Gross NPA	(%)	5.04	1.01
Net NPA	(%)	3.12	0.75

*Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA

Not Applicable

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
February 24, 2021	Pass through Certificate	Long term	10.56	ACUITE A-(SO) (Assigned; converted to Final from Provisional rating)
March 19, 2020	Pass through Certificate	Long term	32.17	ACUITE PROVISIONAL A-(SO) (Assigned)

*Annexure – Details of instruments rated

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Series A1 PTC	February 29, 2020	12.50	November 17, 2021	10.56	ACUITE A- (SO) (Withdrawn)

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About Acuité Ratings & Research:

Acuité 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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