

Press Release

Shri Ram Finance Corporation Private Limited - Vivriti Hillary 12 2020

February 17, 2021

Rating Assigned



Pass Through Certificates (PTCs)*	Rs. 11.57 Cr.
Long Term Rating	ACUITE A- (SO) (Assigned: Converted to Final from Provisional Rating)

* Refer Annexure for details

Rating Rationale

Acuite has converted the provisional rating of '**ACUITE A-(SO)**' (read as **ACUITE A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) issued by Vivriti Hillary 12 2020 to final rating under a securitisation transaction originated by Shri Ram Finance Corporation Private Limited (SRFCPL) (The Originator). The PTCs are backed by a pool of loans provided to individuals for two wheelers with principal outstanding of Rs. 12.86 Cr (including Rs. 1.29 Cr of over collateralisation). The conversion from provisional rating to final rating reflects the fulfilment of the conditions laid out in the press release dated January 06, 2021.

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) Over collateralisation of 10.0% percent of the pool principal;
- (ii) Excess Interest Spread of Rs. 1.84 Cr. i.e. 14.29 % of the pool principal; and
- (iii) Cash collateral of 5.00% of the pool principal (First Loss Credit Enhancement).

The transaction is structured at par. As per the waterfall mechanism, collections of a particular month will be utilized to make scheduled interest and scheduled principal payouts to Series A1 PTCs. The tenure of the PTCs is till April 2022.

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.

About the Originator (Shri Ram Finance Corporation Private Limited)

Incorporated in 2004, SFCPL is a Raipur (Chhattisgarh) based Non-deposit-taking Non-Banking Financial Company (ND-NBFC) engaged in providing two and four wheeler financing, LAP towards SME borrowers and unsecured microloans to individuals. The company is promoted by Mr. Ganesh Bhattar and his son Mr. Gaurav Bhattar who have over a decade of experience in two-wheeler financing. The day to day operations of the company are managed by Mr. Gaurav Bhattar (MD&CEO). The company primarily operates in four states namely Chhattisgarh, Madhya Pradesh, Odisha and Jharkhand through a network of 112 branches as on September 30, 2020.

Assessment of the pool:

SRFCPL has Asset Under Management of Rs. 444.36 Cr as on September 30, 2020. The current pool being securitised comprises around 3% of the total loan exposures. The current pool comprises of two wheeler loans extended to 3,988 individual borrowers for purchase of two wheelers. The initial portfolio of Rs. 18 Cr (original amount) are secured and are repayable monthly. The original maturities of these loans range between 6-24 months. The loans have average interest rate of 28.62%.

As on the pool cut-off date, November 30, 2020, the pool was 30.0% amortised with an aggregate principal outstanding balance of Rs. 12.86 Cr. The average outstanding loan balance was Rs. 32,236. The weighted average seasoning of the pool is 5.73 months, with maximum seasoning of 11 months and minimum seasoning of 3 months. As on the pool cut-off date of November 30, 2020, there were no overdues from the designated loans of the pool. The pool comprises borrowers who had not availed moratorium for both the phases.

Adequacy of Credit Enhancement and impact of COVID19

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

Credit Enhancements (CE)

The transaction is supported in the form of

- i) Over collateralisation, 10.00% of the outstanding principal amount;
- ii) Excess Interest Spread of Rs. 1.84 Cr. i.e. 14.29 % of the pool principal; and
- iii) Cash collateral of 5.00% of the pool principal.

Transaction Structure

The transaction is structured at par. As per the waterfall mechanism, collections of a particular month will be utilized to make scheduled interest and scheduled principal payouts to Series A1 PTCs. The tenure of the PTCs is till April 2022.

If collections received in a collection period preceding a payout date are insufficient to meet the interest payouts due to Series A1 PTCs, then drawdowns may be made upon the Credit Enhancement on that payout date to make whole such insufficiency, to the extent of Credit Enhancement available. On the maturity date of the Series A1 PTCs, if so required, the amount of credit enhancement available will be utilized to pay the principal and interest outstanding on the Series A1 PTCs.

Assessment of Adequacy of Credit Enhancement:

Acuite has arrived at a base case delinquency estimate of 2.00% – 3.00% in respect of the loan assets being securitised. It has applied appropriate stress factors to the base case parameters to arrive at the final loss estimates and consequently, the extent of credit enhancement required. The stress factors also factor in likelihood of elevated slippages due to current subdued environment caused by the environment. The final loss estimate also considers the risk profile of the particular asset class, i.e. secured loans, the borrower strata and economic risks. Furthermore, Acuite has accounted for the probable impact of COVID19 in the transaction for its analysis.

Legal Assessment:

The conversion of provisional rating to final rating is based on the final term sheet, the legal opinion to the satisfaction of Acuite. The legal opinion covers, adherence to RBI guidelines, true sale, constitution of the trust, bankruptcy remoteness and other related aspects.

Key Risks

- **Counterparty Risks:**

The loans are essentially secured two wheeler loans with ticket sizes ranging between Rs. 17,500 to Rs. 134,000. Entire pool has an interest rate ranging between 20-30%. 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 SRFCL's originating and monitoring policies coupled with the systems and process put in place for post disbursement monitoring.

- **Concentration Risks:**

Since the pool is entirely granular, i.e. underlying assets in the pool are in nature of secured two wheeler loans to 3,988 individual borrowers, the risk is significantly mitigated. Geographically, the pool is concentrated in the state of Madhya Pradesh with 52.78% of the pool followed by Chhattisgarh at 33.05%, the remaining pool was spread across two other states.

- **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). In case of significant prepayments, the PTC holders will be exposed to interest rate risks, since the cash flows from prepayment may have to be deployed at lower interest rates.

- **Servicing Risk**

Since the current pool of borrowers in the transaction is retail in nature, there are significant requirements in terms of monitoring, collections and servicing the payouts. SRFCL has been undertaking Direct Assignment and PTC Transactions since 2019 and hence there is low track record available for servicing of

PTCs.

- **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 government or RBI announcing changes in regulatory framework, applicable to NBFCs, it could have implications on the performance of pool. In the event of any leniency in the regulatory framework towards delinquent borrowers, ensuring timely payments from the borrowers could be a challenging task.

Liquidity Position: Adequate

The liquidity position in the transaction is adequate. The PTC payouts will also be supported by an internal credit enhancement in the form of over collateralisation (10.00% of pool principal) and excess interest spread of Rs.1.84 Cr which should help in providing liquidity support in the event of a shortfall in collections along with the cash collateral (First Loss Credit Enhancement) of 5.00% of the pool principal provided by the originator in the form of Fixed Deposit.

Key Rating sensitivity

- Sharp increase in delinquencies in consecutive two 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 (Shri Ram Finance Corporation Private Limited)

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	443.32	387.25
Total Income	Rs. Cr.	78.96	53.33
PAT	Rs. Cr.	18.57	15.06
Net Worth	Rs. Cr.	76.63	58.06
Return on Average Assets (RoAA)	(%)	4.47	4.90
Return on Average Net Worth (RoNW)	(%)	30.62	37.32
Debt/Equity	Times	4.62	5.52
Gross NPA**	(%)	1.18	0.63
Net NPA	(%)	0.82	0.49

*Total income equals to Net interest income plus other income

**Based on 180 dpd

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/criteria-complexity-levels-55.htm>

Rating History (Upto last three years)

Date	Name of the Facilities	Size of the Issue (Rs. Cr.)	Ratings/Outlook
January 06, 2021	Pass Through Certificates	11.57	ACUITE PROVISIONAL A-(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/Outlook
Pass Through Certificates	December 31, 2020	12.00	September 17, 2022	11.57	ACUITE A-(SO) (Assigned: Converted to Final from Provisional Rating)

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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 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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