

Press Release

Shri Ram Finance Corporation Private Limited - Vivriti Hillary 12 2020

February 15, 2022



Rating Upgraded

Pass Through Certificates (PTCs)*	Rs. 1.43 Cr.
Long Term Rating	ACUITE A (SO) (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE A(SO)**' (**read as ACUITE A (Structured Obligation)**) from '**ACUITE A-(SO)**' (**read as ACUITE A minus (Structured Obligation)**) to the Rs 1.43 Cr Pass Through Certificates (PTCs) issued by Vivriti Hillary 12 2020 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. 2.7 Cr (including Rs. 1.29 Cr of over collateralisation).

The upgradation of the rating reflects the following:

- (i) The pool has amortised significantly to 78.87%.
- (ii) There has been no external credit enhancement utilization in the transaction since inception. Hence, the cash collateral cover has increased considerably to 23.66% of the pool POS.
- (iii) The servicer and the payout collection efficiencies in the pool have remained steadily at or over 100.0% since the beginning of the transaction. This is a partly because of the high pre-payments collected from the customers in the pool. The collection efficiency has shown resilience through the second wave of Covid19 as well.
- (iv) The 90+ and 180+ dpds have remained at 0.0% since the inception of the transaction, displaying robust repayment track-record of the customers in the pool.

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 Rs 1.29 Cr.
- (ii) Cash collateral of Rs 0.64 Cr (First Loss Credit Enhancement).
- (iii) Excess interest spread of Rs 0.21 Cr.

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.

About the Originator (Shri Ram Finance Corporation Private Limited)

Raipur (Chhattisgarh) based, SFCPL was incorporated in 2004 as a Non-Deposit-taking Non-Banking Financial Company (ND-NBFC). Subsequently, it started lending business in 2008 upon receiving NBFC license. SFCPL is engaged in extending 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 company primarily operates in four states, namely Chhattisgarh, Madhya Pradesh, Odisha and Jharkhand through a network of 112 branches as on March 31, 2021. Of the total AUM of Rs. 449.80 Cr. as on June 30, 2021, Madhya Pradesh accounts for 44.1%, followed by Chhattisgarh, which accounts for 40.5%.

SFCPL's networth stood at Rs. 104.68 Cr. as on March 31, 2021 (Provisional), as against Rs. 86.03 Cr. as on March 31, 2020.

The company's two wheeler portfolio's 90+dpd witnessed slight deterioration from 3.83% as of March 31, 2021 to 3.97% as of June 30, 2021, mainly due to the second wave of Covid-19. The two wheeler portfolio, with total AUM of Rs. 270.60 Cr as of June 30, 2021, was spread across Madhya Pradesh (48.6%), Chhattisgarh (34.8%), Odisha (14.8%) and Jharkhand (1.9%).

Assessment of the pool:

As per initial rating:

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.

As per January 2022 payout:

There are 2,308 live loans in the transaction, with principal outstanding of Rs 2.72 Cr. The pool has amortised significantly to 78.87%, without any external credit enhancement utilization in the transaction since inception. Hence, the cash collateral cover has built-up considerably to 23.66% of the pool POS. The servicer and the payout collection efficiencies in the pool have remained steadily at or over 100.0% since the beginning of the transaction. This is a partly because of the high pre-payments collected from the customers in the pool. The collection efficiency has shown resilience through the second wave of Covid19 as well. The 90+dpd and 180+dpd have remained at 0.0% since the inception of the transaction, displaying robust repayment track-record of the customers in the pool.

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. 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) Over collateralisation of Rs 1.29 Cr.
- (ii) Cash collateral of Rs 0.64 Cr (First Loss Credit Enhancement).
- (iii) Excess interest spread of Rs 0.21 Cr.

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:

Acuité has arrived at a base case delinquency estimate of 3.00% – 3.50% 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, Acuité has accounted for the probable impact of COVID19 in the transaction for its analysis.

Legal Assessment:

The 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 SRFCPL'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. SRFCPL 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 and excess interest spread which should help in providing liquidity support in the event of a shortfall in collections along with the cash collateral (First Loss Credit Enhancement) provided by the originator in the form of Fixed Deposit.

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

- 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

Outlook – Not applicable

Key Financials – Originator (Shri Ram Finance Corporation Private Limited)

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	432.47	450.02
Total Income*	Rs. Cr.	76.14	78.96
PAT	Rs. Cr.	21.56	18.57
Net Worth	Rs. Cr.	104.89	86.03

Return on Average Assets (RoAA)	(%)	4.89	4.44
Return on Average Net Worth (RoNW)	(%)	24.29	28.41
Debt/Equity	(%)	2.93	4.01
Gross NPA**	(%)	3.90	3.67
Net NPA	(%)	3.00	3.31

*Total income equals to Net interest income plus other income

**Based on 120 dpd

Status of non-cooperation with previous CRA (if applicable):

None

Any other information

Not Applicable

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

<https://www.acuite.in/criteria-complexity-levels-55.htm>

Rating History (Upto last three years)

Date	Name of the Facilities	Term	Size of the Issue (Rs. Cr.)	Ratings/Outlook
February 17, 2021	Pass Through Certificates	Long term	11.57	ACUITE A-(SO) (Assigned; converted to Final from Provisional rating)
January 06, 2021	Pass Through Certificates	Long term	11.57	ACUITE PROVISIONAL A-(SO) (Assigned)

*Annexure – Details of instruments rated

Lender's Name	Name of the Facilities	Date of Issuance	Coup on Rate (%)	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not applicable	Pass Through Certificates	December 31, 2020	12.00	September 17, 2022	1.43	ACUITE A(SO) (Upgraded)

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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 Kanjur marg, Mumbai.

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