

Press Release

Shri Ram Finance Corporation Private Limited - Vivriti Hillary 12 20

January 19, 2023



Rating Withdrawn

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|---------------------------|-------------------|
| Pass Through Certificates (PTCs) | 1.43 | ACUITE A SO Withdrawn | - |
| Total Outstanding Quantum (Rs. Cr) | 0.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 1.43 | - | - |

Rating Rationale

Acuité has withdrawn the long term rating of '**ACUITE A(SO)**' (read as **ACUITE A (Structured Obligation)**) to the Rs 1.43 Cr Pass Through Certificates (PTCs) issued by Vivriti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 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 Hence, the rating is being withdrawn.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 Acuité's policy on withdrawal of rating and pursuant to a request received from the company in this regard.

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 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.

About the Originator

Raipur (Chhattisgarh) based, SRFCPL was incorporated in 2004 as a Non-Deposit-taking NonBanking Financial Company (ND-NBFC). Subsequently, it started lending business in 2008 upon receiving NBFC license. SRFCPL is engaged in extending two and four wheeler financing, secured and unsecured loans towards SME borrowers, unsecured microloans to individuals and personal loans. 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 six states namely Chhattisgarh, Madhya Pradesh, Odisha, Jharkhand, Maharashtra and Rajasthan through a network of 144 branches as on June 30, 2022.

Assessment of the Pool

The 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 percent.

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 trackrecord of the customers in the pool.

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. 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

Counter Party 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.

Servicing Risks

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.

Regulatory Risks

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.

Prepayment Risks

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.

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 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.

Outlook : Not Applicable

Key Financials - Originator

| Particulars | Unit | FY22 (Actual) | FY21 (Actual) |
|------------------------------------|---------|------------------|------------------|
| Total Assets | Rs. Cr. | 589.90 | 432.47 |
| Total Income* | Rs. Cr. | 78.12 | 76.14 |
| PAT | Rs. Cr. | 19.94 | 21.56 |
| Net Worth | Rs. Cr. | 142.67 | 104.89 |
| Return on Average Assets (RoAA) | (%) | 3.90 | 4.89 |
| Return on Average Net Worth (RoNW) | (%) | 16.98 | 24.29 |
| Debt/Equity | Times | 2.99 | 2.93 |
| Gross NPA (Owned portfolio) | (%) | 2.95 | 3.98 |
| Net NPA (Owned portfolio) | (%) | 2.45 | 3.25 |

*Total income equals to Net Interest Income plus other income.

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>
- Securitised 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, Acuite 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 |
|-------------|--------------------------------|-----------|-----------------|--|
| 15 Feb 2022 | Pass Through Certificates | Long Term | 1.43 | ACUITE A(SO) (Upgraded from ACUITE A-(SO)) |
| 17 Feb 2021 | Pass Through Certificates | Long Term | 11.57 | ACUITE A-(SO) (Assigned) |
| 06 Jan 2021 | Pass Through Certificates | Long Term | 11.57 | ACUITE Provisional A-(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 | 31 Dec 2020 | 12.00 | 17 Sep 2022 | Highly Complex | 1.43 | ACUITE A SO Withdrawn |

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About Acuité Ratings & Research

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