

## Press Release

Shri Ram Finance Corporation Private Limited - Northern Arc 2021 VF Paddy

March 17, 2021

### Rating Assigned



Pass Through Certificates	Rs. 19.73 Cr.
Provisional Long Term Rating	ACUITE PROVISIONAL A(SO) (Assigned)

### Rating Rationale

Acuité has assigned a rating of '**ACUITE PROVISIONAL A(SO)**' (read as **ACUITE Provisional A (Structured Obligation)**) to the Pass Through Certificates (PTCs) issued by Northern Arc 2021 VF Paddy of Rs. 19.73 Cr under a securitisation transaction originated by Shri Ram Finance Corporation Private Limited (SRFCPL) (The Originator). The PTCs are backed by an underlying pool of loans provided to two-wheeler borrowers with principal outstanding of Rs. 21.93 Cr (including Rs. 2.19 Cr of over collateralisation).

The provisional rating addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date of April 17, 2023, in accordance with transaction documentation.

The provisional 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% of the pool principal;
- (ii) Cash collateral of 5.00% of the pool principal; and
- (iii) Excess Interest Spread of Rs. 3.49 Cr. i.e. 15.93 % of the pool principal

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

### 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 and 73 collection points as on December 31, 2020. Of the total AUM of Rs.454.38 Cr. as on December 31, 2020, Chhattisgarh accounts 49%, followed by Madhya Pradesh around 37%. SFCPL's networth stood at Rs. 104.07 Cr. as on December 31, 2020 (Provisional), as against Rs. 86.03 Cr. as on March 31, 2020.

The company's two wheeler portfolio's 90+dpd witnessed an improvement from 5.59% as of September 30, 2020 to 4.20% as on December 31, 2020, which indicates a gradual recovery in asset quality post the pandemic. The two wheeler portfolio was spread across Chhattisgarh (50.42%), Madhya Pradesh (35.37%), Odisha (13.14%) and Jharkhand (1.07%) as on December 31, 2020.

### Assessment of the pool:

SRFCPL has Asset Under Management (AUM) under two wheeler loans of Rs. 275.24 Cr as on December 31, 2020. The current pool being securitised comprises of 7.97% of the two-wheelers' AUM. The current pool comprises of loans extended to 5,688 individual borrowers for purchase of two-wheelers. The original maturities of these loans range between 7 to 40 months, the average being 20 months. The loans have average interest rate of 28.6% and average LTV of 59.91%.

As on the pool cut-off date, February 20, 2021, the pool was 15.68% amortised with an aggregate principal outstanding balance of Rs. 21.93 Cr. The average outstanding loan balance was Rs. 38,548. The weighted average seasoning of the pool is 3.51 months, with maximum seasoning of 35 months and minimum seasoning of 3 months. While the seasoning is relatively low, most of the loans in the pool were originated post moratorium and hence, the delinquency risks specifically related to the pandemic is limited. As on the pool cut-off date, there were no overdues from the designated loans of the pool. Moreover, NIL loans in the pool have gone into the 0+dpd bucket historically since disbursements. Also, none of the loans in the pool had availed moratorium. The pool is spread across 4 states, Madhya Pradesh (49.72%), Chhattisgarh (44.00%), Odisha

(5.56%) and Jharkhand (0.73%).

### **Credit Enhancements (CE)**

The transaction is supported in the form of

- (i) Over collateralisation of 10.0% percent of the pool principal;
- (ii) Cash collateral of 5.00% of the pool principal; and
- (iii) Excess Interest Spread of Rs. 3.49 Cr. i.e. 15.93 % of the pool principal

### **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 1 PTCs and ultimate principal payment to Series 1 PTCs. The provisional rating addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date of April 17, 2023, in accordance with transaction documentation.

### **Brief Methodology:**

Acuite has arrived at average base case delinquency estimate in respect of the two-wheeler loan assets being securitised ranging between 1.5%-3%. Acuite has applied appropriate stress factors to the base estimates to arrive at the possible delinquencies and estimate of the credit enhancement required.

### **Legal Assessment:**

The provisional rating is based on draft term sheet, the conversion of rating from provisional to final, shall include, besides other documents, the legal opinion to the satisfaction of Acuite. The legal opinion shall cover, 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. 14,000 to Rs. 1.22 lakhs. The pool has an interest rate ranging between 19.6%-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 5,688 individual borrowers, the risk is significantly mitigated. Geographically, the pool is spread across 4 states, Madhya Pradesh (49.72%), Chhattisgarh (44.00%), Odisha (5.56%) and Jharkhand (0.73%).

#### **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 relatively 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 cash collateral available in the transaction amounts to 5.0% of the pool principal.

### **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

- Collection performance of the underlying pool
- Credit quality of the underlying borrowers
- Decrease in cover available for PTC payouts from the credit enhancement

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

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	450.02	387.25
Total Income	Rs. Cr.	78.96	53.33
PAT	Rs. Cr.	18.57	15.06
Net Worth <sup>^</sup>	Rs. Cr.	86.03	58.06
Return on Average Assets (RoAA)	(%)	4.44	4.90
Return on Average Net Worth (RoNW)	(%)	28.41	37.32
Debt/Equity	Times	4.01	5.41
Gross NPA	(%)	3.67**	1.47
Net NPA	(%)	3.31	1.32

\*Total income equals to Net interest income plus other income

\*\*Based on 120 dpd in FY2020

<sup>^</sup>excluding revaluation reserve

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

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

<https://www.acuite.in/view-rating-criteria-55.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
Pass Through Certificates	-	-	-	19.73	ACUITE PROVISIONAL A(SO) (Assigned)

## Contacts

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## About Acuite Ratings & Research:

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