

Press Release

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

February 15, 2022

Rating Reaffirmed



Pass Through Certificates	Rs. 6.96 Cr.
Provisional Long Term Rating	ACUITE A(SO) (Reaffirmed)

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE A(SO)**' (**read as ACUITE A (Structured Obligation)**) to the Pass Through Certificates (PTCs) issued by Northern Arc 2021 VF Paddy of Rs. 6.96 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. 9.15 Cr (including Rs. 2.19 Cr of over collateralisation) as of January 2022 payout month.

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 2.19 Cr.
- (ii) Cash collateral of Rs 1.10 Cr (First Loss Credit Enhancement).
- (iii) Excess interest spread of Rs 0.91 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 17 April 2023.

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 (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%).

As per January 2022 payout:

There are 4,409 live loans in the transaction, with principal outstanding of Rs 9.15 Cr. The pool has amortised significantly to 58.28%, without any external credit enhancement utilization in the transaction since inception. Hence, the cash collateral cover has built-up moderately to 11.98% 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.

Assessment of Adequacy of Credit Enhancement

Acuité has arrived at a base case delinquency estimate of 4% – 6% in respect of the loan assets being securitised. Acuité has further 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, the borrower strata, economic risks and the demonstrated collection efficiency over the past few months. Acuité has also considered the track record of operations of the originator and certain pool parameters while arriving at the final loss estimate. Additionally, Acuité has accounted for the probable impact of the Covid19 on the transaction for its analysis.

Credit Enhancements (CE)

The transaction is supported in the form of

- (i) Over collateralisation of Rs 2.19 Cr.
- (ii) Cash collateral of Rs 1.10 Cr (First Loss Credit Enhancement).
- (iii) Excess interest spread of Rs 0.91 Cr.

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:

Acuité has arrived at average base case delinquency estimate in respect of the two-wheeler loan assets being securitised ranging between 1.5%-3%. Acuité 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 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. 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 Rs 1.10 Cr 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

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 in FY2020

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)

Date	Name of the Facilities	Term	Size of the Issue (Rs. Cr.)	Ratings/Outlook
May 28, 2021	Pass Through Certificates	Long term	19.73	ACUITE A(SO) (Assigned; converted to Final from Provisional rating)
March 17, 2021	Pass Through Certificates	Long term	19.73	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
Not applicable	Pass Through Certificates	March 17, 2021	11.5	17 April, 2023	6.96	ACUITE A(SO) (Reaffirmed)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President Tel: 022 49294071 mohit.jain@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Sumit Pramanik Senior Manager – Financial Sector Ratings Tel: 7001414372 sumit.pramanik@acuite.in	

About Acuité Ratings & Research:

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