

Press Release

Shri Ram Finance Corporation Private Limited - Northern Arc 201
Paddy



November 29, 2022

Rating Withdrawn

Product		Long Term Rating	Short Term Rating
Pass Through Certificates (PTCs)	6.96	ACUITE A SO Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	6.96	-	-

Rating Rationale

Acuite has withdrawn the long term rating of '**ACUITE A(SO)**' (read as **ACUITE A (Structured Obligation)**) to the Pass Through Certificates (PTCs) issued by Northern Arc 2021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.

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 Hence, the rating is being withdrawn.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 Acuite's policy on withdrawal of rating and pursuant to a request received from the company in this regard.

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

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 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 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.

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.

Legal Assessment

The rating is based on the final term sheet, the legal opinion to the satisfaction of Acuité. 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. 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%).

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 relatively 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

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

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 cash collateral available in the transaction amounts to Rs 1.10 Cr of the pool principal.

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	(%)	2.95	3.98
Net NPA	(%)	2.45	3.25

*Total income equals to Net interest income plus other income

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- 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

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	6.96	ACUITE A(SO) (Reaffirmed)
28 May 2021	Pass Through Certificates	Long Term	19.73	ACUITE A(SO) Stable (Assigned)
17 Mar 2021	Pass Through Certificates	Long Term	19.73	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	Not Applicable	0.00	Not Applicable	Highly Complex	6.96	ACUITE A SO Withdrawn

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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