

Press Release

Subhlakshmi Finance Private Limited - CredAvenue Frost 04 2021

May 07, 2021

Rating Assigned



Pass Through Certificates (PTCs)	Rs. 7.00 Cr
Provisional Long Term Rating	ACUITE PROVISIONAL BBB(SO) (Assigned)

Rating Rationale

Acuité has assigned the rating of '**ACUITE PROVISIONAL BBB(SO)**' (read as **ACUITE Provisional triple B (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 7.00 Cr issued by CredAvenue Frost 04 2021 under a securitisation transaction originated by Subhlakshmi Finance Private Limited (SFPL) (The Originator). The PTCs are backed by a pool unsecured business loans with principal outstanding of Rs. 7.78 Cr (including Rs. 0.78 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 January 16, 2023, in accordance with the transaction documentation. The transaction is structured at par.

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 8.00% of the pool principal; and
- (iii) Excess Interest Spread of 9.00% of the pool principal

The rating of the PTCs is provisional and shall be converted to final rating subject to the execution of the following documents:

1. Trust Deed
2. Deed of Assignment
3. Servicing Agreement
4. Information Memorandum
5. Legal Opinion

About the Originator

Subhlakshmi Finance Private Limited (SFPL) was originally incorporated in 1996 as Pepsu Capital Services Private Limited. In 2016, the promoters acquired Pepsu Capital Services Private Limited and renamed it to SFPL which commenced operation in January 2017 and is engaged in extending credit to micro enterprises, small enterprises along with business loans to individuals.

SFPL is promoted by Mr. Sanjeev Yadav (CEO and Executive Director) and Mr. Bipin Sharma (CFO and Executive Director) who have over two decades of experience in the financial services industry and have been associated with leading player in the microfinance industry.

SFPL has presence in the northern States of India having presence in seven states namely Haryana, Delhi,

Punjab, Uttar Pradesh, etc. The company operates through a network of 50 branches as on March 31, 2021. The promoters intend to increase its branch network in the state of Rajasthan & Madhya Pradesh in FY2022. The company is engaged in financing of Micro Enterprise Loans, SME, Business Loan, LAP and Insured Cattle Loan.

The company's AUM has grown to Rs. 147.38 Cr as on March 31, 2021 from Rs. 68.64 Cr as on March 31, 2018. SFPL reports GNPA on 180+ dpd basis and it stood at 2.14% (180+ dpd basis) as on March 31, 2021 as against 0.39% as on March 31, 2019. As of December 31, 2020, the company reported a PAT of Rs. 1.49 Cr.

Assessment of the pool:

SFPL has Asset Under Management of Rs. 147.38 Cr as on March 31, 2021. The current pool being securitised comprises 5.28% of the total loan exposures.

The underlying pool in the current Pass Through Certificate (PTC) transaction comprises of unsecured business loans extended towards 2,885 borrowers, with an average ticket size of Rs. 37,362, minimum ticket size of Rs. 25,000 and maximum of Rs. 52,400. The current average outstanding per borrower stands at Rs. 26,954. The weighted average original tenure for pool is 18.33 months (minimum 3 months & maximum 36 months). The pool has weighted average seasoning of 5.70 months (minimum 3 months seasoning and maximum 19 months seasoning). The pool under consideration was not under moratorium and all the loans are current as on pool cut-off date, March 31, 2021. Furthermore, all the loans have remained current since origination.

The pool is concentrated in Bihar (82.6%), followed by Uttar Pradesh (11.0%), Haryana (4.5%), Punjab (1.6%) and Rajasthan (0.23%). The loans belong to the categories of micro-enterprise loans (86.21%), integrated cattle loans (8.58%), business loans (3.85%) and small enterprise loans (1.36%).

Credit Enhancements (CE)

The transaction is supported in the form of

- (iv) Over collateralisation of 10.0% of the pool principal;
- (v) Cash collateral of 8.00% of the pool principal; and
- (vi) Excess Interest Spread of 9.00% of the pool principal

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

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 A1 PTCs and expected interest payment to Series A1 PTCs.

Assessment of Adequacy of Credit Enhancement:

Acuite has arrived at a base case delinquency estimate of 1.5% – 2.5 % in respect of the loan assets being securitised. Acuite has further has 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 i.e. unsecured loans, the borrower strata, economic risks and the demonstrated collection efficiency over the past few months. Acuite has also considered the track record of operations of the originator and certain pool parameters while arriving at the final loss estimate. Acuite has accounted for the probable impact of COVID19 in the transaction for its analysis.

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 pool has an average ticket size of Rs. 37,362, minimum ticket size of Rs. 25,000 and maximum of Rs. 52,400. 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 the originator's origination and monitoring procedures.

Concentration Risks:

Since the pool is granular, i.e. underlying assets in the pool are in nature of unsecured business loans to 2,885 borrowers, hence the risk is significantly mitigated. However, there is significant geographical concentration in the pool, since Bihar contributes to 82.6% of the pool, which is partially mitigated as the pool is spread across 37 branches.

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). Prepayment risks are partially mitigated by prepayment penalty levied by the company for pre-closures. In case of significant prepayments, the PTC holders will be exposed to interest rate risks, since the cash flows from prepayment will have to be deployed at lower interest rates.

Servicing Risk

There is limited track record of servicing PTCs, since this is the first PTC transaction for the originator.

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 a regulatory stipulation impacting the bankruptcy remoteness of the structure, the payouts to the PTC holders may be impacted.

Liquidity Position – Adequate

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to 8.0% of the pool principal. The PTC payouts will also be supported by an internal credit enhancement in the form of over collateralisation (10.00 % of pool principal) and excess interest spread (9.00 % of pool principal).

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

Material Covenants

The following covenant is included in the transaction structure: The purchase consideration to be paid by the issuer to the originator for purchasing the pool is equal to Series A1 issue price.

Key Financials – Originator - Standalone

Particulars	Unit	9MFY21 (Provisional)	FY19 (Actual)
Total Assets	Rs. Cr.	123.04	100.26
Net Interest Income	Rs. Cr.	12.84	10.34
PAT	Rs. Cr.	1.49	2.26
Net Worth	Rs. Cr.	27.41	20.01
Return on Average Assets (RoAA)	(%)	1.55	2.65
Return on Average Net Worth (RoNW)	(%)	7.81	14.85
Debt to Equity ratio	Times	3.26	3.67
GNPA	(%)	1.21	0.39

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

Not Applicable

Any other information

None

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

In the absence of the pending steps/ documents the PTC structure would have become null and void, and Acuite would not have assigned any rating.

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

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)

None

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Series A1 PTC	-	-	7.00	ACUITE PROVISIONAL BBB(SO) (Assigned)

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About Acuité Ratings & Research:

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