Press Release

Orange Retail Finance India Private Limited – Webb 09 2021

October 06, 2021

Rating Assigned

Pass Through Certificates (PTCs)	Rs. 12.52 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 minus (Structured Obligation))** to the Pass Through Certificates (PTCs) of Rs. 12.52 Cr issued by Webb 09 2021 under a securitisation transaction originated by Orange Retail Finance India Private Limited (ORFIL) (The Originator). The PTCs are backed by a pool of two-wheeler loans with principal outstanding of Rs. 13.91 Cr (including Rs. 1.39 Cr of over collateralisation).

The provisional rating factors in the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date of April 17, 2024, 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;

(iii) Excess Interest Spread of 11.49% of the pool principal, and

(iv) Investment of 2% in Series A1 PTCs by the originator. The Series A1 PTCs have a quantum of Rs 12.52 Cr.

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. Legal Opinion
5. Final Term Sheet

About the Originator

Orange Retail Finance India Private Limited is a Non-Banking Finance Corporation, providing affordable mobility and livelihood finance solutions to semi-urban and rural India. ORFIL's product offerings include Two-wheeler Loans, Micro-Business Loans, Loan against Property and Swift Cash Loans. As of June 30, 2021, the company's lending portfolio was spread across 5 states and had 85 branches, with its registered office in Chennai, Tamil Nadu. The entity's AUM stood at Rs 310 Cr and it had 85,346 active borrowers.

The founders of ORFIL have experience in retail lending, especially in the south-Indian markets, where ORFIL's business would be focussed in the next few years. Its board of directors consist of, among other member, Mr Ebenezer Daniel (MD & CEO), who has more than two decades of experience in the financial sector.
The company's AUM has shrunk to Rs. 341.05 Cr as on March 31, 2021 from Rs. 404.16 Cr as on March 31, 2020, due to the impact of Covid-19. ORFIL's GNPA increased to 9.01% as on March 31, 2021 from 5.91% as on March 31, 2020. The company reported a loss of Rs. 8.12 Cr as on March 31, 2021, as compared to a loss of Rs. 2.05 Cr as on March 31, 2020.

Assessment of the pool:
ORFIL has Asset Under Management of Rs. 310 Cr as on June 30, 2021. The current pool being securitised comprises 4.5% of the total AUM.
The underlying pool in the current Pass Through Certificate (PTC) transaction comprises of two-wheeler loans extended towards 4,411 borrowers, with an average ticket size of Rs. 65,828, minimum ticket size of Rs. 22,000 and maximum of Rs. 1.61 lakhs. The current average outstanding per borrower stands at Rs. 31,529. The weighted average original tenure for pool is 29.89 months (minimum 12 months & maximum 57 months). The pool has weighted average seasoning of 15.66 months (minimum 4 months seasoning and maximum of 42 months seasoning). At 52.10%, the pool is significantly amortised.
59.8% of the pool under consideration was not under moratorium in the previous year and all the loans are current as on pool cut-off date, August 31, 2021. Furthermore, 84.57% of the loans have remained current over the last nine months.
41.05% of the borrowers are concentrated in Tamil Nadu followed by 21.94% in Andhra Pradesh and 18.19% in Karnataka which reflects moderate geographical concentration risks. The top 10 borrowers of the pool constitute 0.67% (Rs.0.9 Cr) of the pool principal outstanding, indicating the healthy granularity of the portfolio.

Credit Enhancements (CE)
The transaction is supported in the form of
(v) Over collateralisation of 10.0% of the pool principal;
(vi) Cash collateral of 8.0% of the pool principal; and
(vii) Excess Interest Spread of 11.49% of the pool principal

Additionally, the transaction includes Investment of 2% in Series A1 PTCs by the originator.

Transaction Structure:
The transaction is structured at par. The structure envisages 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.

Assessment of Adequacy of Credit Enhancement:
Acuité has arrived at a base case delinquency estimate of 7.5% – 8.5 % in respect of the loan assets being securitised. Acuite 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 i.e. unsecured loans, 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 Covid pandemic on the transaction for its analysis.

Legal Assessment:

The provisional rating is based on a draft term sheet. The conversion of rating from provisional to final, shall include, besides other documents, the legal opinion to the satisfaction of Acuité. 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. 65,828, minimum ticket size of Rs. 22,000 and maximum of Rs. 1.61 lakhs. Considering the moderately 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:

The pool is fairly granular with the underlying assets in the pool in the nature of two-wheeler loans to 4,411 borrowers and an average POS of Rs 31,529. However, there is a moderate state-wise geographical concentration in the pool; 41.05% of the borrowers are concentrated in Tamil Nadu followed by 21.94% in Andhra Pradesh and 18.19% in Karnataka.

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 second PTC transaction for the originator. However, this risk is mitigated by the fact that the company's underlying borrowers have a moderate repayment track record over the past few years, and 84.57% of the loans have remained current over the last nine months.

Comingling 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 8.00% of the pool principal. The PTC payouts will also be supported by internal credit enhancements in the form of over collateralisation (10.00% of pool principal) and excess interest spread (11.49% of pool principal).

Key Rating sensitivity

- Collection performance of the underlying pool
- Credit quality of the originator
- Any decrease in cover available for PTC payouts from the credit enhancement

Material Covenants

The following covenant is included in the transaction structure:

On each Payout Date the amounts present in the collection and payment account by way of:

- proceeds realised by the Trustee from the Receivables in the Collection Period immediately preceding the relevant Payout Date and deposited in the collection and payment account by the Servicer;
- any amounts then available in the collection and payment account; and
- amounts drawn, to the extent necessary, from the Credit Enhancement and transferred to the collection and payments account in accordance with the Transaction Documents, shall be utilized by the Trustee as per the waterfall mechanism.

Outlook: Not Applicable

Key Financials – Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	282.79	312.39
Total Income*	Rs. Cr.	57.93	63.93
PAT	Rs. Cr.	(8.12)	(2.05)
Net Worth	Rs. Cr.	98.58	95.03
Return on Average Assets (RoAA)	(%)	(2.73)	(0.74)
Return on Average Net Worth (RoNW)	(%)	(8.39)	(2.21)
Debt to Equity ratio	Times	1.55	2.08
GNPA	(%)	9.01	5.91
NNPA	(%)	7.76	5.16

**Total Income equals to Net Interest Income plus Other Income*

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

None

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) Acuité 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 Acuité 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

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not applicable	Series A1 PTC	Not Applicable	Not Applicable	12.52	ACUITE PROVISIONAL BBB-(SO) (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.