

## Press Release

Shri Ram Finance Corporation Private Limited – Kashton 09 2021

October 07, 2021

## Rating Assigned



Pass Through Certificates (PTCs)	Rs. 32.06 Cr
Provisional Long Term Rating	ACUITE Provisional A-(SO) (Assigned)

## Rating Rationale

Acuité has assigned the rating of '**ACUITE PROVISIONAL A-(SO)**' (read as **ACUITE Provisional A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 32.06 Cr issued by Kashton 09 2021 (Trust) under a securitisation transaction originated by Shri Ram Finance Corporation Private Limited (SFCPL) (The Originator). The PTCs are backed by a pool of two-wheeler loans with principal outstanding of Rs. 35.23 Cr (including Rs. 3.17 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 February 16, 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 9.00% of the pool principal;
- (ii) Cash collateral of 5.00% of the pool principal;
- (iii) Excess Interest Spread of 12.65% of the pool principal

Also, the transaction includes investment of 5.00% in Series A PTCs by the originator

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

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:**

SFCPL has two-wheeler Asset Under Management of Rs. 270.60 Cr as on June 30, 2021. The current pool being securitised comprises of 13.02% of the total two-wheeler AUM.

The underlying pool in the current Pass Through Certificate (PTC) transaction comprises of two-wheeler loans extended towards 11,672 borrowers, with an average ticket size of Rs. 47,244, minimum ticket size of Rs. 14,200. and maximum of Rs. 1.56 lakhs, indicating a healthy granularity of the pool. The current average outstanding per borrower stands at Rs. 30,187. The weighted average original tenure for the pool is 22.28 months (minimum 8 months & maximum 40 months). The pool has moderate weighted average seasoning of 7.95 months (minimum 4 months seasoning and maximum of 35 months seasoning).

No loans of the pool under consideration was under moratorium and all the loans are current as on pool cut-off date, September 20, 2021. Furthermore, 24.0% of the loans have remained current since origination. However, none of the borrowers had ever gone beyond 60dpd, showing a fair track record of the borrowers' repayment.

The pool is moderately concentrated geographically. 47.19% of these borrowers are concentrated in Madhya Pradesh followed by 33.27% in Chhattisgarh and 17.56% in Odisha. The top 10 borrowers of pool constitute 0.24% i.e. Rs.0.86 Cr of the pool principal O/s.

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

The transaction is supported in the form of

- (iv) Over collateralisation of 9.0% of the pool principal;
- (v) Cash collateral of 5.0% of the pool principal; and
- (vi) Excess Interest Spread of 12.65% of the pool principal

Additionally, the transaction includes Investment of 5% in Series A 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:**

Acuite has arrived at a base case delinquency estimate of 2.0% – 4.0 % 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. Acuité has also considered the track record of operations of the originator and certain pool parameters while arriving at the final loss estimate. Acuité has accounted for the probable impact of the Covid-19 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 average ticket size is of Rs. 47,244, minimum ticket size of Rs. 14,200. and maximum of Rs. 1.56 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, monitoring and collection procedures.

**Concentration Risks:**

The pool is fairly granular with the underlying assets in the pool in the nature of two-wheeler loans to 11,672 borrowers and an average POS of Rs 30,187. However, there is a moderate state-wise geographical concentration in the pool; 47.19% of these borrowers are concentrated in Madhya Pradesh followed by 33.27% in Chhattisgarh and 17.56% in Odisha.

**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 a moderate track record of servicing PTCs, since the originator has undertaken PTC transactions before. Further, this risk is also mitigated by the fact that the company's underlying borrowers have a moderate repayment track record over the past few years.

**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 5.00% of the pool principal. The PTC payouts will also be supported by internal credit enhancements in the form of over collateralisation (9.00% of pool principal) and excess interest spread (12.65% of pool principal).

### Key Rating sensitivity

- Collection performance of the underlying pool
- Credit quality of the originator
- 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

	Unit	FY21 (Provisional)	FY20 (Actual)
Total Assets	Rs. Cr.	429.11	450.02
Total Income	Rs. Cr.	78.55	78.96
PAT	Rs. Cr.	16.35	18.57
Net Worth	Rs. Cr.	104.68	83.33
Return on Average Assets (RoAA)	(%)	3.72	4.44
Return on Average Net Worth (RoNW)	(%)	18.73	29.01
Total Debt/ Tangible Net Worth (Gearing)	(%)	2.87	4.17
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

### 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) 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

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not applicable	Series A PTC	Not Applicable	Not Applicable	32.06	ACUITE PROVISIONAL A--(SO) (Assigned)

## Contacts

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**About Acuité Ratings & Research:**

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