

Press Release

Ugro Capital Limited - Nimbus 2022 ML Maverick

March 02, 2022

Rating Assigned



Pass Through Certificates (PTCs)	Rs. 13.10 Cr
Long Term Rating	ACUITE Provisional AA-(SO) (Assigned)

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE PROVISIONAL AA-(SO)**' (read as **ACUITE Provisional double A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 13.10 Cr issued by Nimbus 2022 ML Maverick (The Trust) under a securitisation transaction originated by Ugro Capital Limited (Ugro) (The Originator). The PTCs are backed by a pool of machinery loans with principal outstanding of Rs. 13.10 Cr.

The rating factors in the timely payment of interest and principal on monthly payment dates in accordance with transaction documentation. The transaction is structured at par.

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) Cash collateral of 16.50% of the current pool principal outstanding,
- (ii) Excess Interest Spread (EIS) of 4.95% of the current pool principal outstanding

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 (Ugro Capital Limited)

UGRO was originally incorporated as Chokhani Securities Limited in 1993. It is a systemically important non-deposit taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). In 2018, pursuant to a change in control and management, the company was renamed as UGRO Capital Limited. UGRO's equity shares, commercial paper and non-convertible debentures are listed on the Bombay Stock Exchange (BSE). The company's equity is also listed on the National Stock Exchange (NSE).

UGRO is headed by Mr. Shachindra Nath, a seasoned finance professional, with more than two decades of experience in the financial services sector. He is the Promoter, Executive Chairman and Managing Director of the company. UGRO is a Mumbai based company (registered office). It has more than 75 branches across the country as on December 31, 2021. UGRO lends to the MSME segment in nine specifically identified sectors i.e. Healthcare, Education, Chemicals, Food Processing/FMCG, Hospitality, Electrical Equipment's and Components, Auto Components, Light Engineering and Micro-Enterprise segment. UGRO has built diversified distribution channels which consist of Branch led channel, Ecosystem consisting of Supply Chain & Machinery Finance, Partnership & Alliances for Co-lending with smaller NBFCs & FinTechs & Digital Channel.

Assessment of the pool:

Ugro's total portfolio exposure towards machinery loans was Rs. 182.60 Cr as on December 31, 2021, and the current pool being securitised is 7.17% of the machinery loans portfolio.

The underlying pool in current Pass Through Certificate (PTC) transaction comprises of machinery loans extended towards 54 individual borrowers, with an average ticket size of Rs. 30.61 lakhs, minimum ticket size of Rs. 8.8 lakhs. and maximum of Rs. 99.6 lakhs. The current average outstanding per borrower stands at Rs. 24.26 lakhs. The weighted average original tenure for pool is of 49.86 months (minimum 37 months & maximum 61 months). The pool has a healthy weighted average seasoning of 11.83 months (minimum 7 months & maximum 20 months). 98.9% of the loans in the pool did not avail moratorium, and still none of the loans in the pool went into the non-CURRENT bucket since origination, which are positive signs.

The machinery types include Computer Numerical Controls (45%), printers (13%), Vertical Machining Centre (11%), etc. While 73.5% of the customers belong to the individual/ proprietorship category, the remaining 26.5% belong to the firm category. 24.18% of these borrowers are concentrated in Karnataka followed by 24.14% in Maharashtra, 21.09% in Tamil Nadu, and the remaining across other states. The top 5 borrowers of the pool constitute 27.1% i.e. Rs.3.56 Cr of the pool principal O/s.

Credit Enhancements (CE)

The transaction is supported in the form of

- (iii) Cash collateral of 16.50% of the current pool principal outstanding,
- (iv) Excess Interest Spread (EIS) of 4.95% of the current pool principal outstanding

Transaction Structure

The rating factors in the timely payment of interest and principal on monthly payment dates in accordance with transaction documentation. The transaction is structured at par.

Assessment of Adequacy of Credit Enhancement:

Acuite has arrived at a base case delinquency estimate of 1.0% – 2.0% 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, 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 the Covid19 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 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 loans are machinery loans with ticket sizes ranging between Rs. 8.8 lakhs. and Rs. 99.6 lakhs. Considering the moderately vulnerable credit profile of the borrowers, the risk of delinquencies/defaults are moderate. These risks of delinquencies are partly mitigated, considering the efficacy of the originator's underwriting processes, coupled with the systems and process put in place for post disbursement monitoring.

- **Concentration Risks:**

Since the pool consists of 54 borrowers, moderate concentration risks remain. However, the significant amortisation of the pool and the track record so far of the borrowers mitigate this risk to some extent.

- **Prepayment Risk:**

The pool is subject to prepayment risks since rate of interest is relatively 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 will have to be deployed at lower interest rates.

- **Servicing Risk**

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

- **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 16.50% of the pool principal. The internal credit enhancement is available through excess interest spread.

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 the cash collateral

Outlook: Not Applicable

Key Financials – Originator (UGRO Capital Limited)

	Unit	FY2021	FY2020
Total Assets	Rs. Cr.	1707.96	1190.90
Total Income (Net of Interest Expense)	Rs. Cr.	108.78	91.47
PAT	Rs. Cr.	28.73	19.52
Net Worth	Rs. Cr.	952.44	921.52
Return on Average Assets (RoAA)	(%)	1.98	1.90
Return on Average Net Worth (RoNW)	(%)	3.07	2.23
Total Debt/Tangible Net Worth (Gearing)	Times	0.80	0.28
Gross NPAs	(%)	2.72	0.95
Net NPAs	(%)	1.75	0.57

*Total income equals to Net interest income plus other income

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

None

Any other information

Not Applicable

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 (%)	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings
Not applicable	Nimbus 2022 ML Maverick (PTC)	Not applicable	Not applicable	Not applicable	13.10	ACUITE Provisional AA-(SO) (Assigned)

Contacts

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

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.