

Press Release

Ugro Capital Limited - Nimbus 2022 ML Maverick

May 17, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Pass Through Certificates (PTCs)	13.10	ACUITE AA- SO Assigned Provisional To Final	-
Total Outstanding Quantum (Rs. Cr)	13.10	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has converted from provisional to final long-term rating '**ACUITE AA-(SO)**' (read as **ACUITE 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 and the credit enhancement available in the form of

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

The final rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, legal opinion, assignment agreement and other documents relevant to the transaction.

About the Originator

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 Channels.

Assessment of the Pool

Ugro's aggregate portfolio exposure towards machinery loans stood at Rs. 182.60 Cr as on December 31, 2021, and the current pool being securitised comprises 7.17% of the machinery loans portfolio.

The underlying pool in the current Pass Through Certificate (PTC) transaction consists 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 the moratorium that was available during the pandemic period and none of the loans in the pool went into the non-current bucket since origination, which reflect its asset quality.

The underlying machinery for the loans include Computer Numerical Controls (45%), Printers (13%), Vertical Machining Centre (11%), etc. While 73.5% of the customers are individual/ proprietorships, the remaining 26.5% are corporate firms. 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

- 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

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

Acuité has arrived at a base case delinquency estimate of 1.0% – 2.0% 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 intrinsic risk 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. Further, the analysis also takes into account the probable impact of the Covid-19 pandemic on the transaction.

Legal Assessment

The final rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, servicing agreement, legal opinion, accounts agreement, assignment agreement and other documents relevant to the transaction.

Key Risks

Counter Party 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.

Servicing Risks

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.

Regulatory Risks

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

Prepayment Risks

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.

Commingling Risk

The transaction is subject to commingling risk since there is a time gap between last collection date and transfer to pay-out account.

Rating Sensitivity

- Collection performance of the underlying pool
- Credit quality of the underlying borrowers
- Any utilization of the cash collateral

Even if the base case delinquency estimate is increased by 10%, the transaction will stay at the same rating level.

Material Covenants

The following covenant is included in the transaction structure: The collection in month M will be deposited into the Collection and Pay-out 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 16.50% of the pool principal. The internal credit enhancement is available through excess interest spread.

Outlook - Not Applicable

Key Financials - Originator

	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

Information received for the rating exercise:

The following information were received for the rating exercise:

- Ugro's machinery loans portfolio static pool of 90+dpd for December 2020 to December 2021
- Ugro's machinery loans portfolio dynamic delinquency details (current, 0+dpd, 30+dpd, 60+dpd, 90+dpd, 180+dpd) for December 2019 to December 2020.
- Ugro's machinery loans portfolio current collection efficiency and overall collection efficiency (including overdue collections) for December 2020 to December 2021.
- Draft term sheet, waterfall and selected pool.
- Other associated details such as credit policy documents, restructured loans details, write-off details, etc.

Waterfall mechanism:

From the Settlement Date, on each Payout Date, proceeds realised by the Trustee from the Receivables in the Collection Period immediately preceding the relevant Payout Date and deposited in the collection and payout account by the Servicer, together with any amounts then available in the collection and payout account and amounts drawn, to the extent necessary, from the Credit Enhancement and transferred to the collection and payout account in accordance with the Transaction Documents shall be utilized by the Trustee in the orders of priority provided below:

A. Till such time the Series A PTCs are outstanding:

- i. for payment of all statutory and regulatory dues;
- ii. for the payment of any fees and expenses incurred by the Trustee or any fees payable to service providers and/ or any other amounts expressly provided for in the Transaction Documents;
- iii. Payment of overdue payouts to the series A PTCs;
- iv. Payment of scheduled interest payout to the series A PTCs;
- v. Payment of scheduled principal payouts to the Series A PTCs;
- vi. any prepayments would be utilized for payment of Series A principal;
- vii. for reimbursement of the Credit Enhancement (to the extent drawn on any Payout Date and not reimbursed already);
- viii. For payment to the Residual Beneficiary

B. On completion of payment of the Series A PTCs

- i. for payment of all statutory and regulatory dues;
- ii. for the payment of any fees and expenses incurred by the Trustee or any fees payable to service providers and/ or any other amounts expressly provided for in the Transaction Documents;
- iii. for payment to the Residual Beneficiary

Strengths of the pool:

- All the selected loans have remained current since origination. Thus the borrowers have moderate proven track record of loan repayment.
- The average CIBIL score of the borrowers in the pool is 761, showing healthy history of the borrowers in terms of loan repayment.
- 98.9% of the borrowers in the pool did not avail the moratorium.
- All the loans in the pool are current as of the pool cut-off date.
- The pool is geographically well diversified across 7 states.

Weakness of the pool:

- The pool belongs to the machinery loans portfolio of Ugro, which has relatively low vintage of less than one loan cycle.

Machinery loans credit policy of Ugro:

- Purchase of new machine form the OEM/ Dealer (in normal course of business)
- Machines can be domestic or imported. (INR Funding only)
- Machines to be funded would be as per the approved list of OEM's/ Dealerships, and the machine class & type. This approved list of the Machinery and Equipment basis the OEM's/ Dealerships would be periodically revised and updated by the Business Head along with the Credit Specialist: Plant and Machinery.
- Machine Class to be funded: Plastic/ Injection moulding, Light Engineering, Pharma (Catering Domestic market only), Medical Equipment.
- Printing, Packaging, Gensets (Allied Sectors).
- Along with Supporting eco-system assets: Stabilizer, Scissors, Compressors etc.
- This is a generic policy for the finance of Machinery and Equipment and specific Machinery Class and OEM programmes would be floated as and when and basis the tie-up terms with the OEM's.

Pool details as on the pool cut-off date 31 January 2022 (Rs. Cr):

Table 1.1: Geographical distribution

State	Pool	
	o/s	%
DELHI	1.37	10.46%
GUJARAT	1.16	8.88%
HARYANA	1.47	11.24%
KARNATAKA	3.17	24.18%
MAHARASHTRA	3.16	24.14%
PUDUCHERRY	0.62	4.72%
TAMIL NADU	2.76	21.09%
Total	13.10	100.00%

Table 1.2: Total tenure distribution

Total Tenure	Pool	
	o/s	%
Less than 1 year	0.00	0.00%
1-3 years	0.00	0.00%
3-5 years	11.03	84.17%
5-7 years	2.07	15.83%
GRAND TOTAL	13.10	100.00%

Table 1.3: Interest rate distribution

Interest Rate	Pool	
	o/s	%
Upto 12 %	0.00	0.00%
12-13%	9.06	69.19%
13-14%	3.81	29.08%
14-15%	0.23	1.73%
GRAND TOTAL	13.10	100.00%

Table 1.4: Ticket size distribution

Ticket size	Pool	
	o/s	%
Upto Rs 10 lakhs	0.14	1.10%
10-25 lakhs	3.88	29.64%
25-50 lakhs	3.18	24.28%
50 lakhs-1Cr	5.89	44.98%
1Cr+	0.00	0.00%
GRAND TOTAL	13.10	100.0%

Table 1.5: LTV distribution

Total Tenure	Portfolio	
	o/s	%
Less than 1 year	0.35	0.19%
1-3 years	27.04	14.81%
3-5 years	105.76	57.92%
5-7 years	49.45	27.08%
GRAND TOTAL	182.60	100.00%

Ugro's machinery loan portfolio summary as on 31 December 2021 (Rs. Cr):

Table 2.1: Geographical distribution:

State	Portfolio	
	o/s	%
ANDHRA PRADESH	1.86	1.02%
DELHI	17.43	9.55%
GUJARAT	20.56	11.26%
HARYANA	30.51	16.71%
JHARKHAND	3.58	1.96%
KARNATAKA	22.61	12.38%
MADHYA PRADESH	1.65	0.90%
MAHARASHTRA	51.33	28.11%
PUDUCHERRY	2.96	1.62%
RAJASTHAN	0.91	0.50%
TAMIL NADU	17.41	9.54%
TELANGANA	5.60	3.06%
UTTAR PRADESH	5.44	2.98%
UTTARAKHAND	0.74	0.41%
Total	182.60	100.00%

Table 2.2: Total tenure distribution

Total Tenure	Portfolio	
	O/S	%
Less than 1 year	0.35	0.19%
1-3 years	27.04	14.81%

3-5 years	105.76	57.92%
5-7 years	49.45	27.08%
GRAND TOTAL	182.60	100.00%

Table 2.3: Interest rate distribution

Interest Rate	Portfolio	
	o/s	%
1. Upto 12 %	7.69	4.21%
2. 12-13%	95.02	52.04%
3. 13-14%	76.69	42.00%
4. 14-15%	3.20	1.75%
GRAND TOTAL	182.60	100.00%

Table 2.4: Ticket size distribution

Ticket size	Portfolio	
	O/S	%
Upto Rs 10 lacs	1.17	0.64%
10-25 lacs	26.77	14.66%
25-50 lacs	40.70	22.29%
50lacs-1cr	53.79	29.46%
1cr+	60.16	32.95%
GRAND TOTAL	182.60	100.0%

Table 2.5: LTV distribution

LTV	Portfolio	
	O/S	%
1. Upto 50%	12.41	6.80%
2. 50-60%	5.61	3.07%
3. 60-70%	17.75	9.72%
4. 70-80%	58.48	32.02%
5. 80%+	88.35	48.38%
GRAND TOTAL	182.60	100%

Table 3: Machinery loans portfolio dynamic delinquency since inception

Product	AUM (Rs. Cr)	PAR 30+ %	PAR 60+ %	PAR 90+%
Dec-19	0.29	0.0%	0.0%	0.0%
Jan-20	0.29	0.0%	0.0%	0.0%
Feb-20	0.29	0.0%	0.0%	0.0%
Mar-20	1.40	0.0%	0.0%	0.0%
Apr-20	1.41	0.0%	0.0%	0.0%
May-20	1.43	0.0%	0.0%	0.0%
Jun-20	1.73	0.0%	0.0%	0.0%
Jul-20	3.41	0.0%	0.0%	0.0%
Aug-20	5.00	0.0%	0.0%	0.0%
Sep-20	8.09	0.0%	0.0%	0.0%
Oct-20	12.51	0.0%	0.0%	0.0%

Nov-20	16.59	0.0%	0.0%	0.0%
Dec-20	31.66	0.0%	0.0%	0.0%
Jan-21	41.43	0.2%	0.0%	0.0%
Feb-21	50.40	0.0%	0.0%	0.0%
Mar-21	71.46	0.0%	0.0%	0.0%
Apr-21	70.94	0.0%	0.0%	0.0%
May-21	74.02	1.2%	0.7%	0.0%
Jun-21	82.92	1.0%	1.0%	0.0%
Jul-21	86.61	2.2%	0.0%	0.0%
Aug-21	105.35	2.7%	2.4%	0.0%
Sep-21	119.56	2.3%	1.4%	1.4%
Oct-21	129.67	1.6%	1.2%	1.2%
Nov-21	147.43	2.2%	1.1%	0.8%
Dec-21	182.60	1.5%	0.8%	0.5%

The 90+dpd improved to 0.5% as of December 2021 as compared to 0.8% as of November 2021.

Sensitivity Analysis

Below is the sensitivity analysis for the transaction. Even if the base case loss is increased by 10%, the rating will remain at the current level.

Sensitivity Scenario	Rating
Base case loss	ACUITE PROVISIONAL AA-(SO)
Base case loss + 5%	ACUITE PROVISIONAL AA-(SO)
Base case loss + 10%	ACUITE PROVISIONAL AA-(SO)

Collection Efficiency

The company's current collection efficiency and overall collection efficiency in the machinery loans portfolio stood at 97.0% and 94.5% respectively as of December 31, 2021.

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Mar 2022	Pass Through Certificates	Long Term	13.10	ACUITE Provisional AA-(SO) (Assigned)
02 Mar 2022	Pass Through Certificates	Long Term	13.10	ACUITE Provisional AA-(SO) (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Pass Through Certificate	03-11-2022	10.00	17-07-2026	13.10	ACUITE AA- SO Assigned Provisional To Final

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Sumit Kumar Pramanik Senior Manager-Rating Operations Tel: 022-49294065 sumit.pramanik@acuite.in	

About Acuité Ratings & Research

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