

Press Release

Ugro Capital Limited – Avenger 2022- March Series

April 14, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Pass Through Certificates (PTCs)	18.98	Provisional ACUITE AA- SO Assigned	-
Total Outstanding Quantum (Rs. Cr)	18.98	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating '**ACUITE PROVISIONAL AA-(SO)**' (read as **ACUITE Provisional double A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 18.98 Cr issued by Avenger 2022 – March Series (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. 19.98 Cr. (including over-collateralisation of Rs. 1.00 Cr)

The rating factors in the timely payment of interest on monthly payment dates and ultimate payment of principal 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 10.00% of the current pool principal outstanding,
- ii. Over-collateralisation of 5.00% of the current pool principal outstanding
- iii. Excess Interest Spread (EIS) of 8.32% 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 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 10.94% of the machinery loans portfolio.

The underlying pool in the current Pass Through Certificate (PTC) transaction consists of machinery loans extended towards 48 individual borrowers, with an average ticket size of Rs. 49.50 lakhs. The current average outstanding per borrower stands at Rs. 24.26 lakhs. The weighted average original tenure of the pool is 57.38 months (minimum 37 months and maximum 62 months). The pool has a healthy weighted average seasoning of 12.73 months (minimum 11 months seasoning and maximum of 18 months seasoning). 99.4% 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 healthy asset quality.

The underlying machinery for the loans include Computer Numerical Controls (47%), Laser cutting (24%), Vertical Machining Centre (7%), etc. While 41.2% of the customers are companies, the remaining 32.6% are corporate firms and the rest are individuals/ proprietorship. 28.11% of these borrowers are concentrated in Maharashtra followed by 16.71% in Haryana, and the remaining belong to other states. The top 5 borrowers of the pool constitute 35.7% (i.e. Rs.6.14 Cr) of the pool principal O/s.

Credit Enhancements (CE)

The transaction is supported in the form of

- i. Cash collateral of 10.00% of the current pool principal outstanding,
- ii. Over-collateralisation of 5.00% of the current pool principal outstanding
- iii. Excess Interest Spread (EIS) of 8.32% of the current pool principal outstanding

Transaction Structure

The rating factors in the timely payment of interest on monthly payment dates and ultimate payment of principal 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 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 loans are machinery loans with an average ticket size of Rs. 49.50 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 48 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 Risk

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

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.

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.

Outlook - Not applicable

Key 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

Adequate

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to 10.00% of the pool principal. The internal credit enhancement is available through excess interest spread and over-collateralisation.

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

None.

Supplementary disclosures for Provisional Ratings

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.

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.

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>

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	Not Applicable	Not Applicable	Not Applicable	18.98	Provisional ACUITE AA- SO Assigned

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

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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. Ratings assigned by Acuité 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. Ratings assigned by Acuité 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.