Press Release
UGRO CAPITAL LIMITED - AVENGER 2022- MARCH SERIES
May 16, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Shc R
Pass Through Certificates (PTCs)	7.68	ACUITE AA- | SO | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	7.68	-	-

Rating Rationale
Acuité has reaffirmed the long-term rating **'ACUITE AA-(SO)' (read as ACUITE double A minus (Structured Obligation))** to the Pass Through Certificates (PTCs) of Rs. 7.68 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.
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 Rs 1.99 Cr.
ii. Over-collateralisation of Rs. 0.99 Cr.
iii. Excess Interest Spread (EIS) of Rs 0.37 Cr.

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 Vice Chairman and Managing Director of the company. UGRO is a Mumbai based company (registered office). It has 150 branches across the country as on March 31, 2024. 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
As per the initial rating, 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 for pool is of 57.38 months (minimum 37 months & 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 pool constitute 35.7% (i.e. Rs.6.14 Cr) of the pool principal O/s.

Currently, there are 41 borrowers outstanding. Also, there has been no utilisation of credit enhancement in the transaction, thus signalling healthy repayment in the transaction. Since the initial rating, this transaction has witnessed Healthy CE built up of 22.15%. Also, the pool has amortised by 54.85%

Credit Enhancements (CE)

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 Rs 1.99 Cr.
ii. Over-collateralisation of Rs. 0.99 Cr.
iii. Excess Interest Spread (EIS) of Rs. 0.37 Cr.

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.

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 an average ticket size of Rs. 49.50 lakhs. Considering the Acuité Ratings & Research Limited www.acuite.in 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 41 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

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 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 payout 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.

All Covenants (Applicable only for CE & SO Ratings)

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).
MRR of 10% in the form of -Fixed deposit of 10% of Pool Principal

Waterfall Mechanism

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 in the following order of priority.

Until the Series A1 PTCs are outstanding

i. payment of all statutory and regulatory dues;
ii. 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 interest payments due to Series A1 PTCs;
iv. payment of interest payments due to the Series A1 PTCs;
v. payment of expected Series A1 Principal (which includes any unpaid expected Series A1 Principal pertaining to earlier periods, payable to Series A1 Investors);
vi. any prepayments would be utilized for payment of Series A1 PTCs Principal;
vii. reimbursement of the Credit Enhancement (to the extent drawn on any Payout Date and not already reimbursed); and
viii. payment to the Residual Beneficiary.

Following payment of the Series A1 PTCs in full

i. payment of all statutory and regulatory dues;
ii. the payment of senior costs and any other amounts expressly provided for in the Transaction Documents; and
iii. payment to the Residual Beneficiary.

All Assumptions

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.

Liquidity Position

Adequate

The liquidity in the transaction is adequate. The credit enhancement is available in the form of
i. Cash collateral of Rs 1.99 Cr.
ii. Over-collateralisation of Rs. 0.99 Cr.
iii. Excess Interest Spread (EIS) of Rs. 0.37 Cr.

Outlook

Not Applicable

Key Financials - Originator

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	6277.02	4280.11
Total Income*	Rs. Cr.	638.76	390.49
PAT	Rs. Cr.	119.34	39.78
Net Worth	Rs. Cr.	1438.36	984.04
Return on Average Assets (RoAA)**	(%)	2.26	1.12
Return on Average Net Worth (RoNW)	(%)	9.85	4.08
Debt/Equity	Times	3.24	3.20
Gross NPA (Owned Book)	(%)	3.09	2.46
Net NPA (Owned Book)	(%)	1.64	1.31

**Total income equals to Net Interest Income plus other income*
***As per Acuité calculations*

Any Other Information

None

Status of disclosure of all relevant information about the Obligation being Rated

Non-public information

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Explicit Credit Enhancements: https://www.acuite.in/view-rating-criteria-49.htm
• Securitized Transactions: https://www.acuite.in/view-rating-criteria-48.htm

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 May 2023	Pass Through Certificate	Long Term	13.62	ACUITE AA- (SO) (Reaffirmed)
17 May 2022	Pass Through Certificate	Long Term	18.98	ACUITE AA- (SO) (Assigned)
14 Apr 2022	Pass Through Certificate	Long Term	18.98	ACUITE Provisional AA- (SO) (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not avl. / Not appl.	Pass Through Certificate	29 Mar 2022	9.75	15 Sep 2026	Highly Complex	7.68	ACUITE AA- | SO | Reaffirmed

Contacts

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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.