

Press Release

CONNECT RESIDUARY PRIVATE LIMITED - PROSPERITY ASSET 5

March 07, 2024

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Sh
Pass Through Certificates (PTCs)	5.79	ACUITE BBB- SO Assigned Provisional To Final	-
Total Outstanding Quantum (Rs. Cr)	5.79	-	-



Rating Rationale

Acuite has converted from provisional to final and assigned the long term rating of 'ACUITE BBB- (SO)' (read as ACUITE triple B minus (Structured Obligation)) to the Pass Through Certificates (PTCs) of Rs. 5.79 Cr. issued by PROSPERITY ASSET 5 (Trust) under a securitisation transaction originated by CONNECT RESIDUARY PRIVATE LIMITED (The Originator/Lessor).

The PTCs are backed by lease receivables from Cherise India Private Limited (lessee/obligor) for assets comprising Tea Vending Machines leased by Connect Residuary Private Limited (lessor).

The rating addresses the timely payment of principal and interest on expected monthly payment dates, however the same are promised on the ultimate final maturity date, in accordance with the transaction documentation. The transaction is structured at par.

The rating is based on the strength of cash flows from lease receivables from the lessee, credit quality of the lessee as well as soundness of the transaction's legal structure. The credit enhancement is available in the form of:

1. Cash collateral in the form of fixed deposit issued by the lessor in favor of the trust equivalent to 23.36 percent of the total value of PTCs issued.

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, assignment agreement and other documents relevant to the transaction.

About the Originator (Connect Residuary Private Limited)

Connect Residuary Private Limited is Mumbai based company incorporated in 2011. Mr. Ankush Bhan, Mr. Rohit Kakkar are directors of the company. It is engaged in the business of acquiring and dealing in the unguaranteed residuary interest in assets rented to customers. The Company rents assets to customers for a mutually agreed period. Their primary business entails asset renting. As an asset lifecycle management company, they engage with corporates to cater to their asset-based needs for expansion, and offer integrated asset tracking solutions, for clients to manage the rented assets across the organization. They offer varied solutions for their prospective clients like new equipment rental, sale and rent back, refresh plan, short term rentals, and provide value added services like asset disposable services and strategic & advisory services.

Assessment of the Pool

The receivables are not in the form of a pool. Hence, this section remains not applicable.

Credit Enhancements (CE)

The credit enhancement is available in the form of:

1. Cash collateral in the form of fixed deposit issued by the lessor in favor of the trust equivalent to 23.36 percent of the total value of PTCs issued.

Transaction Structure

The rating addresses the timely payment of principal and interest on expected monthly payment dates, however the same are promised on the final maturity date, in accordance with the transaction documentation. The transaction is structured at par.

About the Lessee (Cherise India Private Limited)

Incorporated in December 2018, Cherise India Private Limited (CIPL) is based out of Maharashtra and engaged in manufacturing and distribution of tea and coffee premixes and deployment of vending machines under the brand name 'Cherise'. CIPL is promoted by Mr. Parimal Shah in 2018 who is a tea sommelier and an alumnus of IIM Ahmedabad. The company is also promoted by M K Jokai Agri Plantations private limited, a tea estate based in North east India which manufactures orthodox Assam tea. M K Jokai Agri Plantations private limited is a part of Mr. Parimal Shah's family business. CIPL generates its revenue through sale of the premixes through two channels i.e. FMCG sales and Vending Machines. Under the FMCG sales, the company currently has a network of 67 distributors through whom it sells its products on online e-commerce websites and physical stores. The company started manufacturing tea and coffee vending machines in 2020. As on date the company has manufactured ~1012 vending machines which have been installed at various corporates, hospitals, Malls, Schools and colleges for free. The company does not earn any income from sale of such vending machines. These vending machines are designed to accept only premixes of Cherise, thus making these vending machines a source for sale at the point of consumption.

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, assignment agreement and other documents relevant to the transaction.

Key Risks

Counter Party Risks

The payments to the PTC holders arise from a single obligor. Considering the minimal track record of operations of Cherise India Private Limited, any adverse impact on the overall business risk profile will have a bearing on the servicing ability of the company.

Concentration Risks

The rating remains exposed to high concentration risks as the lease receivables i.e cashflow source are from a single obligor.

Servicing Risks

There is limited track record of servicing PTCs, since this one of the initial PTC transactions for the originator and the lessee. Therefore, the servicing risk for the transaction remains high.

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 risk remains negligible on account of non-permissibility of prepayment of rentals. In an event of default by the obligor on the lease payments, the Receivables due from the obligor will be discounted at a rate as agreed between the originator and the obligor but will be paid to the Investors at the promised Series 1 Yield.

Commingling Risk

While there is a time gap between the expected payout date and the due date for transfer to the payout account, this risk is mitigated by the existence of the trust with a designated escrow account overseen by the trustee. The trust will pass through the rentals to the holders

of the PTCs; there will be no involvement/ intervention by the originator in such payments.

Rating Sensitivity

- Any upward or downward movement in the overall credit profile of the lessee
- Timeliness of the lease rental payments by the lessee/obligor

All Covenants (Applicable only for CE & SO Ratings)

The following covenant is included in the transaction structure: The amounts must be deposited in the Collection and Pay-out Account prior to the Expected Pay Out Date. The amounts deposited will be exclusive of GST and TDS deduction (if any), will be in accordance with the provisions of the Income Tax Act, 1961. The amounts drawn upon utilization of the Credit Enhancement, shall be deposited into the Collection and Pay-out Account from which payments to the Beneficiaries shall be made in accordance with the terms of the issue.

All Assumptions

Acuité has considered a default rate as base case to arrive at the expected loss for the receivables being securitised. Acuite has further applied appropriate stress factors to the base figures to arrive at the final estimates and consequently the extent of credit enhancement required. The final estimates also consider the risk profile of the lessee and further factored in economic risks. The PTC payouts will also be supported by credit enhancement in the form of cash collateral (fixed deposit) issued by the lessor in favor of the trust (23.36 percent of the total value of PTCs issued).

Liquidity Position

Adequate

As per the transaction structure, both the interest and the principal amount is promised to the PTC holders only on the final maturity date of the transaction. Hence, providing adequate liquidity cushion for repayments. Further, the structure has a credit enhancement as a support in the form of cash collateral (fixed deposit) issued by the lessor in favor of the trust equivalent to 23.36 percent of the total value of PTCs issued.

Outlook

Not applicable

Key Financials - Connect Residuary Private Limited

Particulars	Unit	FY23 (Prov.)	FY22 (Actual)
Operating Income	Rs. Cr.	40.85	38.86
PAT	Rs. Cr.	11.90	12.08
PAT Margin	(%)	29.13	31.08
TOL/TNW	Times	3.99	4.32
PBDIT/Interest	Times	50.44	51.26

Key Financials - Cherise India Private Limited (lessee)

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Operating Income	Rs. Cr.	36.67	16.14
PAT	Rs. Cr.	2.94	1.49
PAT Margin	(%)	8.02	9.24
TOL/TNW	Times	1.39	1.57
PBDIT/Interest	Times	3.64	6.13

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>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.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
31 Oct 2023	Pass Through Certificate	Long Term	5.87	ACUITE Provisional BBB- (SO) Not Applicable (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	INE0RTR15018	Pass Through Certificate	12 Dec 2023	14.10	12 Dec 2026	Highly Complex	5.79	ACUITE BBB- SO Assigned Provisional To Final

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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.

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