July 02, 2020

SBFC Finance Private Limited: Provisional [ICRA]AA(SO) rating assigned to PTCs issued under loan against gold securitisation transaction by Aura Trust June 2020

Summary of rating action

Issue Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Aura Trust June 2020	PTC Series A	62.16	Provisional [ICRA]AA(SO); Assigned

**Instrument details are provided in Annexure-1*

Rationale

ICRA has assigned a Provisional [ICRA]AA(SO) [pronounced provisional ICRA double A (structured obligation)] rating to the pass-through certificates (PTCs) Series A issued under a securitisation transaction backed by a Rs. 66.84-crore (principal outstanding) pool of loan against gold contracts originated by SBFC Finance Private Limited (SBFC).

The provisional rating is based on the strength of the cash flow from the selected pool of contracts, the credit enhancement available in the form of (i) a cash collateral (CC) of 10.00% of the pool principal to be provided by the originator, (ii) over-collateral of 7% of the pool principal, and (iii) the excess interest spread (EIS) in the structure. The rating is also based on the integrity of the legal structure and is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- First line of support available through subordination of EIS (amounting to around 8.37% of the pool principal amount)
- Further support available in the form of subordination of 7.00% of pool principal for PTC Series A and CC
- No overdue contracts as on pool cut-off date

Credit challenges

- Moderate geographical concentration in the pool at the state level
- Uncertainty arising from the nationwide lockdown due to Covid-19 pandemic may lead to near-term stress on the pool’s performance

Description of key rating drivers highlighted above

SBFC would assign the future receivables arising from the selected pool of 6,709 loans to a special purpose vehicle (Trust). The Trust would issue one series of PTC Series A amounting to 93.00% of the total pool principal backed by the assigned loans against the gold receivables.

The first line of support for PTC Series A in the transaction is in the form of a subordination of 7.00% of the pool principal (includes over-collateralisation). The entire principal amount is promised to PTC Series A in a single bullet instalment on August 22, 2022 while the interest is promised on the monthly payout dates. The interest will be payable on the outstanding PTC principal at the contracted rate on a monthly basis. The plan principal (93% of the scheduled principal billing) amount is payable to PTC Series A on the monthly payout date along with the promised payouts. Any shortfall in meeting the plan principal on a monthly basis cannot be drawn from the CC except on the scheduled maturity date. The monthly prepayments would also be split in the ratio of 93:7 between the PTC investor and the originator. All collections from the pool that exceed the promised payout and the plan principal payout to the PTCs would leak to the originator at the end of every month.

A CC of 10.00% of the initial pool principal provided by SBFC acts as further credit enhancement in the transaction. The CC shall be provided in the form of a fixed deposit lien marked in favour of the Trustee. In the event of a shortfall in meeting the promised PTC monthly interest payouts and the PTC principal on the scheduled maturity date, the Trustee will utilise the CC to meet the shortfall.

There were no overdues in the pool as on the cut-off date. The pool consists of loans that have moderate seasoning with a weighted average seasoning of 4.7 months. The pool has a higher ticket size customer profile with a moderate loan-to-value (LTV) of around 54% at the time of loan disbursement. However, the contracts in the pool are characterised by high ticket size loans as the average ticket size of the pool exceeded Rs. 1 lakh. The pool has a moderate geographical concentration with the top five states contributing to 55% of the pool.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed security (ABS) transactions involves the simulation of potential delinquencies (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for loss and the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and the rated pools as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts. Further, the ongoing nationwide lockdown and the subsequent uncertainty regarding the macro-level economic activity could lead to near-term stress on the pool's performance.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 3.0-4.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 24.0-36.0% per annum.

Liquidity position: Strong

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. This structural feature imparts significant liquidity to the transaction as even a small amount of collections in the underlying pool contracts would be sufficient to meet the promised PTC payouts. Additionally, a CC amounting to 10.00% of the pool principal amount is available in the transaction. The CC is adequate to meet 14 months' interest payouts due to the PTC investors, even in the unlikely scenario of no collections in the pool.

Rating sensitivities

Positive triggers – The rating could be upgraded on the sustained strong collection performance of the underlying pool contracts leading to low delinquency levels and substantial cover for the future PTC payouts from the credit enhancement.

Negative triggers – The rating could be downgraded on the sustained weak collection performance of the underlying pool contracts leading to high delinquency levels and a decreased cover for the future PTC payouts from the credit enhancement.

Analytical approach

The rating action is based on the analysis of the performance of SBFC's loan against gold portfolio and previously rated ICRA pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

SBFC Finance Private Limited (SBFC) is a non-banking finance company that provides loans against property, gold loans and personal loans. Backed by Lyra Partners and Arpwood Partners Investment Advisors LLP, the company commenced operations in September 2017 after acquiring the performing loans in Karvy Financial Services Limited's (KFSL) retail portfolio. At the time of closing the deal in September 2017, the company had a net worth of ~Rs. 590 crore (net of goodwill) and a loan book of Rs. 807 crore, which stood at Rs. 597 crore and Rs. 871 crore, respectively, as on June 30, 2018. Following the acquisition, SBFC focussed on building adequate systems and processes and on the on-boarding of experienced professionals in the management team before rebooting the lending business. It leverages technology and analytics to provide customers with easy access to credit and to assess their credit behaviour through their digital footprint. In June 2019, the company acquired a pool of Rs. 2,365.6 crore via a PTC transaction in Q1 FY2020. The total pool in the structure was Rs. 2,957.02 crore, of which Series A PTCs of Rs. 2,365.6 crore were issued to SBFC, wholly financed by long-term borrowings. DHFL holds the Series B PTCs of the remaining amount of Rs. 591.4 crore (20% of Series A PTCs; in line with the RBI's guidelines pertaining to minimum retention).

SBFC reported a net profit of Rs. 24.43 crore in FY2019 on total assets of Rs. 1,792.99 crore in March 2019 compared to a net profit of Rs. 3.14 crore in FY2018 on total assets of Rs. 1,382.14 crore in March 2018. In Q1 FY2020, the company posted a net profit of Rs. 4.09 crore on a total asset base of Rs. 4,140.51 crore in June 2019. The company has a rating of [ICRA]A with stable outlook on its long-term debt programmes.

Key financial indicators (audited)

	FY2018	FY2019	9M FY2020
Net interest income	58.17	123.97	122.80
Operating income	58.49	125.72	138.28
Profit before tax	5.45	34.98	55.24
Profit after tax	3.14	24.43	39.43
Total AUM	778.00	1,156.00	3,566.90
Net worth	848.43	880.24	1,014.91
Goodwill	260.39	260.39	260.40
Total assets	1,382.14	1,792.99	4,235.64
%Tier I	55.46%	44.26%	19.17%
% CRAR	55.95%	44.81%	19.48%
Gearing (adjusted) (in times)	0.82	1.43	4.11
% Net profit/Average total assets	0.45%	1.54%	1.74%
% Return on net worth	0.74%	2.83%	5.55%
% Gross NPAs	1.40%	0.43%	1.98%
% Net NPAs	1.17%	0.39%	1.42%
% Net NPA/Net worth	1.30%	0.51%	2.11%

Note: All numbers are based on Ind-AS reporting; 9M FY2020 numbers are unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					02-Jul-20	-	-	-
1	Aura Trust June 2020	PTC Series A	62.16	62.16	Provisional [ICRA]AA(SO)	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Issue Name	Instrument Name	Date of Issuance	Coupon Rate	Scheduled Maturity Date*	Amount Rated (Rs. crore[1])	Current Rating
Aura Trust June 2020	PTC Series A	June 2020	9.20%	20-Aug-2022	62.16	Provisional [ICRA]AA(SO)

** Scheduled maturity and average life at transaction initiation; may change on account of prepayment*

[1] *100 lakh = 1 crore = 10 million*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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