March 31, 2020

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

## Summary of rating action

| Issue Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Aura March 2020 Trust | PTC Series A | 76.27 | 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 pass through certificate (PTC) Series A issued under a securitisation transaction backed by a Rs. 84.75-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 5.00% of the pool principal to be provided by the Originator, (ii) overcollateral of 10% of the pool principal and (iii) the entire 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 7.64% of the pool principal amount; excess collections, including EIS, after meeting the scheduled PTC payouts in any month would be used for accelerated principal payouts and passed on to PTC investors
- Further support available in the form of subordination of 10.00% of pool principal and cash collateral of 5.00% of the pool principal for PTC Series A
- No overdue contracts as on pool cut-off date

## Credit challenges

- Selected pool characterised by high ticket size loans with average ticket size exceeding Rs. 1 lakh
- Moderate geographical concentration in the pool at the state level

## Description of key rating drivers highlighted above

SBFC would assign the future receivables arising from the selected pool of 8,918 loans to a special purpose vehicle (Trust). The Trust would issue one series of PTC Series A amounting to 90.00% of the total pool principal backed by the assigned loan against gold receivables.

The first line of support for Series A PTCs in the transaction is in the form of a subordination of 10.00% of the pool principal (includes over collateralisation). The entire principal amount is promised to PTC Series A in a single bullet installment on April 16, 2022 while the interest is promised on monthly payout dates. The interest will be payable on the outstanding PTC principal at the contracted rate on a monthly basis. The plan principal (90% of scheduled principal billing) amount is payable to PTC Series A on monthly payout date along with promised payouts. Any shortfall in meeting the plan principal on monthly basis cannot be drawn from the first loss facility (FLF) except on the last payment date or clean-up call option date. All collections from the pool that exceeds the promised payout and plan principal payout to the PTCs would be utilised to accelerate the amortisation of the PTCs. The scheduled PTC principal payout at the end of every month will be revised accordingly.

A cash collateral of 5.00% of the initial pool principal provided by SBFC acts as further credit enhancement in the transaction. The Cash Collateral 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 cash collateral to meet the shortfall. Additionally, the EIS available in the structure will provide credit enhancement support.

There were no overdues in the pool as on the cut-off date. The pool consists of loans that have moderate seasoning with weighted average seasoning of ~5.6 months. The pool has a higher ticket size customer profile with moderate LTV at time of loan disbursement, being around 66%. However, the contracts in the pool are characterized by high ticket size loans as the average ticket size of the pool exceeded Rs. 1 lakh.
In ICRA's opinion, the level of credit enhancement is sufficient to protect the Investors from delinquencies and credit losses even under significantly stressed loss assumptions.

## 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 shortfall in collections are arrived at after taking into account the performance of the Originator's portfolio and rated pool, and the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to account for the current macroeconomic situation as well as any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be 3.0-5.0% with certain variability around it. However, ICRA notes that the disruptions caused due to the spread of the coronavirus pandemic could result in higher-than-expected spike in delinquencies in the near term, though the same is difficult to ascertain at present.

## 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 cash collateral amounting to 5.00% of the pool principal amount is available in the transaction. The cash collateral is adequate to meet 5 months' interest payouts due to the PTC investors, even in an 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 very low delinquency levels and substantial cover for the future PTC payouts from the credit enhancements.

**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 decrease in the cover available for the future PTC payouts from the credit enhancements.

## 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.

## 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 1 | 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 (FY2020) | | | | Rating History for the Past 3 Years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated | Amount Outstanding | Date & Rating | Date & Rating in FY2019 | Date & Rating in FY2018 | Date & Rating in FY2017 |
| | | | | | 31-Mar-20 | - | - | - |
| 1 | Aura March 2020 Trust | PTC Series A | 76.27 | 76.27 | 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](http://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 March 2020 Trust | PTC Series A | March 31, 2020 | 9.52% | 16-Apr-2022 | 76.27 | 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.

For more information, visit www.icra.in

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