

Kogta Financial (India) Limited (Revised)

February 8, 2021

Ratings

Instrument Details	Amount (Rs. Crore)	Rating ¹	Rating Action
Non-Convertible Debentures (NCD)	20.00	Provisional CARE AA (CE); Stable [Provisional CARE Double A (Credit Enhancement); Outlook: Stable]	Provisional Rating Assigned
Total Long Term Instruments	20.00 (Rs. Twenty Crore Only)		

Details of instruments/facilities in Annexure-1.

Unsupported Rating ²	CARE A-
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Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale and Key Rating Drivers

CARE has assigned a rating of 'Provisional CARE AA (CE); Stable' [Provisional CARE Double A (Credit Enhancement); Outlook: 'Stable'] to the proposed Non-Convertible Debentures (NCD) issue of Kogta Financial (India) Limited (KFL), covered by a security pool of vehicle loan receivables assigned to Growfix Wheels CB-02.

The rating assigned is provisional, based on the structure provided to CARE by KFL, the issuer. The rating will be confirmed after the copies of documents executed in accordance with the structure, a due diligence audit report by an external auditor and an independent legal opinion is furnished by the Issuer, to the satisfaction of CARE.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

1. Upward revision of KFL's standalone rating.

Negative Factors - Factors that could lead to negative rating action/downgrade:

1. Downward revision in the standalone rating of the issuer/originator
2. Significant rise in delinquencies in the cover pool
3. Non-adherence to the key transaction terms envisaged at the time of the rating

Detailed description of the key rating drivers

Kogta Financial (India) Limited (KFL; Issuer and Servicer in this transaction) will issue Non-Convertible Debentures (NCD). The debentures will be issued as secured debentures by way of hypothecation of the current and future receivables arising out of a cover pool comprising of vehicle loans originated by KFL, on a first and exclusive charge basis in favour of the Debenture Trustee for the benefit of the Debenture Holders. The debenture holders are eligible to receive monthly interest payment and bullet repayment of principal post 23 months of the proposed issuance or on the occurrence of a Credit Event (detailed in Annexure 3), whichever is earlier.

As per the redemption schedule for debentures, on a monthly basis, only expected interest will be transferred to the debenture holders, while on the 24th month post issuance, the debenture holders will receive a bullet payment of principal along with the expected interest for that month. If Issuer fails to make any of the monthly expected interest payments or the bullet payment of principal on the 24th month, it will be considered as a credit event, whereupon the cashflows arising from the cover pool will be utilized to make accelerated payment to the debenture-holders. The

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

²As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

principal and interest amounts are promised to the debenture-holders only by the final maturity date (i.e. 48 months from issue date).

The priority of payment from cover pool would be the repayment of expected interest and expected principal with turbo par amortization, which indicates that the residual beneficiaries would not receive any collections from the pool until the entire obligation to debenture holders is fully repaid. If the cash flows from the underlying receivables are not sufficient to pay the principal/interest by the final maturity date, the available cash collateral would be utilised to ensure that the debenture holders are repaid in full.

Until the occurrence of a credit event, cash flows realized from the cover pool will be utilized to acquire additional vehicle loan assets from KFL, so as to comply with the security cover requirements as per the transaction documents.

The Debentures Holders are supported by the following:

- KFL's internal accruals (Rated 'CARE A-; Stable' for its long term debt obligation), which is primary obligor
- SPV guarantee - provided by Growfix Wheels CB-02, a Special Purpose Vehicle (SPV) to which KFL will assign vehicle loan receivables with principal cover of 1.20 times of the outstanding amount (including any accrued but unpaid interest prior to the final fixing date); the SPV guarantee will be invoked on occurrence of any of the pre-defined credit events. The cash flows from the assigned receivables will be utilized exclusively for making payouts to the debenture-holders on invocation of SPV guarantee.
- Cash collateral in the form of FD that is maintained at 3.00% of the issuance amount.

The initial underlying covered pool for the NCD structure consists of following features;

All contracts in the pool are current in payment and there are no over-dues as on the pool cut-off date (December 31, 2020). The weighted average IRR of the pool is 20.07%. The pool is moderately concentrated in terms of geography, with the top 3 states accounting for 78.33% of total pool POS; the top 5 districts comprise 14.28% of the pool principal. The weighted average LTV for the pool is 73.13% with maximum LTV being 90%.

Key Rating Strengths:

1. Three level of protection to the Debentures holders. KFL's internal accrual (Rated CARE A-; Stable, for its long term debt obligation), which is primary obligor. SPV guarantee - provided by Growfix Wheels CB-02, a Special Purpose Vehicle (SPV) to which KFL will assign vehicle loan receivables with principal cover of 1.2 times the outstanding amount (including any accrued but unpaid interest prior to the final fixing date). Further cash collateral in the form of FD that is maintained at 3.0% of the issuance amount.

Key Rating Weaknesses:

1. The collection performance of the portfolio of KFL might be impacted due to the prolonged after effects of the Covid-19 pandemic and the ensuing lockdown and moratorium, which may affect the liquidity position of the issuer.

Analytical approach & Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Non-Banking Financial Companies](#)

[Financial ratios – Financial Sector](#)

[CARE's methodology for Asset / Mortgage Backed Securitization](#)

[Rating Credit Enhanced Debt](#)

[Assignment of Provisional Rating](#)

Liquidity Position

The inherent liquidity in the structure is strong given the total support available to debenture-holders. The support available to debenture-holders are i) KFL's internal accrual, ii) SPV guarantee provided by Growfix Wheels CB-02, with a principal cover of 1.2x the outstanding amount (including any accrued but unpaid interest prior to the final fixing date) and iii) Cash collateral in the form of FD that is maintained at 3.0% of the issuance amount. Entire principal and interest are promised to the debenture-holders only by the final maturity date (48 months from issue date). The priority of

payment from cover pool would be the repayment of expected interest and expected principal with turbo par amortization, which indicates that the residual beneficiaries would not receive any collections from the pool until the entire obligation to debenture holders is fully repaid.

As on March 31, 2020, the average working capital limit utilization stood at 27.74% for 12 months ending November 30, 2020 and further KFL had comfortable ALM with no cumulative mismatch in any of the time buckets up-to 3 years as on September 30, 2020. Its liquidity has been aided by fund infusion in the form of CCPS of Rs.301.00 crore in October 2019. KFL has also raised funds through NCD issues, covered bonds, securitization and direct assignment during FY20. As per KFL's management, it had free cash and bank balance (including free Fixed deposits) and liquid investments of Rs.81.09 crore and unutilized working capital limits of Rs.39.82 crore (including Overdraft against Fixed deposits) as on November 30, 2020 against its debt repayment obligation of Rs.78.75 crore in next 3 months (December 01, 2020 to February 28, 2021) and Rs.265.31 crore in next one year (December 01, 2020 to November 30, 2021). KFL has raised funds of around Rs.305.50 crore in 7MFY21 (Upto October 31, 2020) under the normal sanctions, TLTRO, PCG scheme and securitization.

Key Rating Assumptions

The analysis for the purpose of rating is based on the fact that credit event will happen and the cashflows generated from cover pool would be utilized to repay the debenture holders.

CARE has applied the methodology for rating Asset / Mortgage Backed Transactions to analyse the transaction to assess whether the Credit cum liquidity enhancement is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of the underlying pool, CARE has analyzed the performance of static pools provided by the Originator and overall portfolio performance of the Originator. Considering the borrower profile and nature of loan, pool characteristics and portfolio performance, CARE has taken the average peak shortfall at 7.0% - 8.0% of principal outstanding. The base case shortfalls were stressed along with other key factors such as the timing of shortfalls, the recovery assumptions and the time to recovery.

About the Company

Incorporated in 1996 by members of the Kogta Family, Kogta Financial India Limited (KFL) is a Deposit Accepting asset financing company with a focus on vehicles financing. In 1998, the company got registered with RBI under the category NBFC-AFC. Initially, KFL was operating its business on a very small scale. Gradually, it expanded its business and opened its corporate office at Jaipur in 2008 to coordinate its expanding operations. It set up lending activities in other regions including Gujarat (in 2012), Maharashtra (in 2015), Madhya Pradesh (in 2017) and Delhi-NCR (in 2018). Currently, its network is spread across 8 states, including Uttar Pradesh and Haryana.

KFL is currently rated "CARE A-; Stable" for its long term obligations.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	109.49	169.38
PAT	8.30	24.94
Interest coverage (times)	1.25	1.48
Total Assets	769.52	1267.14
Net NPA (%)	2.37	2.58
ROTA (%)	1.43	2.45

A- Audited; P- Provisional

Status of non-cooperation with previous CRA:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
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Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	-	-	-	20.00	Provisional CARE AA (CE); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	20.00	Provisional CARE AA (CE); Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities:
Credit Events
A credit event shall occur if:

- Any failure on part of the Company to make payment as per the original Repayment Schedule.
- Any default on part of the Company to make payment of any amount that has become due and payable under the Transaction Documents.
- PAR > 90 in the loans constituting the Asset is greater than 6% of the aggregate outstanding principal amounts of the loans constituting the Asset.
- Failure to comply with the "Maintenance of Security Cover" requirement as defined in Transaction Structure
- Rating of the Company is downgraded below BBB+ by the Rating Agency.
- Rating of the instrument is downgraded below AA- by the Rating Agency.
- Any delay on part of the Company in crediting the amounts received/collected/recovered in relation to the loans constituting the Assets to the bank account of the Assignee within the stipulated timelines.
- Breach of any other covenants.
- Cross default of the Issuer, Inability to Pay Debts/ Distress
- Failure to perform any obligations in relation to this transaction, including compliance with reporting obligations (as per Reporting Covenant Timeline)
- Material Adverse Effect on the Issuer
- Any change in regulation/guidelines that, in the opinion of the majority debenture holders, invalidates the subsequent assignment of security pool assets to the trust; however, for triggering such an event, a legal opinion from Legal Counsel shall be obtained (and shared with the Trustee) confirming the invalidation of assignment of the receivables

Pool Selection Criteria:

Each loan constituting the Assets shall meet each of the eligibility criteria listed below.

- Each loan must be originated by the Company and must be a commercial vehicle (LCV or MUV) or car loan.
- Loans must be unencumbered (other than under the Transaction Documents) and not sold or assigned by the Company
- Loans must have been originated while complying with all the extant 'know your customer' norms specified by the RBI.
- Loans are current and not in overdue at the time of assignment and have not been terminated or prepaid.
- Loan must have maturity date at least 1 month before the Final Redemption Date of the Instrument.
- Maximum ticket size of Rs 10 lakh per borrower
- Minimum IRR of the loans must be 12%
- Weighted average IRR of the loans should be more than 17%

- Loan to value of the contracts should be less than or equal to 90%
- Loan should be seasoned for at least one month

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Highly Complex

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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