

**Northern Arc 2019 CV Banksy  
 (Originator: Kanakadurga Finance Limited)**

February 19, 2021

**Ratings**

Instrument	Outstanding PTC Amount (Rs. crore) <sup>@</sup>	Tenure (months) <sup>*</sup>	Enhancement (Rs. Crore)		Rating <sup>1</sup>	Rating Action
			Subordination	Cash Collateral		
Series A1 PTCs	0.52 (Rs. Fifty Two lakhs Only)	41	2.85	0.95	CARE A+ (SO) [CARE Single A Plus (Structured Obligation)]	Reaffirmed
Series A2 PTCs	0.95 (Rs. Ninety five Lakhs Only)		1.33		CARE A (SO) [CARE Single A Plus (Structured Obligation)]	Revised from CARE A- (SO) [CARE Single A Minus (Structured Obligation)]

*Details of instruments/facilities in Annexure-1.*

*\*The tenure may change due to prepayments / foreclosures in the pool.*

**Detailed Rationale and Key Rating Drivers**

CARE has reaffirmed the rating at 'CARE A+ (SO)' [pronounced as 'CARE Single A Plus (Structured Obligation)'] on the Series A1 PTCs and revised the rating to 'CARE A (SO)' [pronounced as 'CARE Single A (Structured Obligation)'] from 'CARE A- (SO)' [pronounced as 'CARE Single A Minus (Structured Obligation)'] on the Series A2 PTCs issued by Northern Arc 2019 CV Banksy backed by three wheeler and four wheeler Loan receivables originated by Kanakadurga Finance Limited (KFL).

The reaffirmation of the rating of Series A1 PTCs and the revision in the rating of the Series A2 PTCs takes in to consideration the performance of the underlying loans over the past 22 months post securitisation and the build-up of credit enhancement. In addition, it draws comfort from the EIS support, transaction structure and defined payment mechanism, and sound legal structure of the transaction. Further, CARE has factored in the overall performance of KFL.

**Detailed description of the key rating drivers**

Pursuant to the RBI notification dated March 27, 2020, Investor had agreed to extend moratorium 1.0 to all the standard contracts which were not in overdue as of 1<sup>st</sup> March 2020 and for payout scheduled in April, May and June 2020. Following the extension, Moratorium 2.0 was also approved for the payouts scheduled in July, August and September 2020. Collections received during moratorium were transferred to the trustee and trustee applied those collections towards payments to PTC holders. Credit Enhancement utilization during the moratorium was suspended. And accordingly, after January 2021 payout, the balance tenure has been revised and a revised payment schedule has also been provided by the originator.

The pool has amortized by 83.50% in 22 months post securitization, with nil utilization of Cash collateral. The pool has exhibited low delinquencies. As of January 2021, OD (as a % of initial POS) is 2.50%. The CC available is sufficient to sustain the rating for the balance tenor.

Pool Summary (as of January 2021 Payout)	
Months Post Securitisation	22
Pool Amortisation	83.50%
90+ Delinquency (% of Initial POS)	1.80%
180+ Delinquency (% of Initial POS)	1.60%
Overdue Amt (% of Initial POS)	2.50%
CCE	79.00%
CC as % of Balance POS	30.20%
Cumulative Prepayments	11.70%

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Key Rating Strengths:**

- Cash Collateral (CC) as % of Balance POS is 30.20% and is unutilized.
- As of January'21, OD (as a % of initial POS) is 2.50%.

**Key Rating Weaknesses:**

- Impacts of lockdown due to Covid-19 pandemic on the collections from the pool post the moratorium.

**Liquidity Position:**

The inherent liquidity in the structure is adequate. The interest payouts for Series A1 PTCs are promised on a monthly basis, while the Series A1 principal is expected on a monthly basis. On full repayment of Series A1 PTCs, interest payouts to Series A2 PTCs are promised on a monthly basis; and the Series A2 PTC principal is expected on a monthly basis. The principal for Series A1 PTCs and Series A2 PTCs are promised by the last payout date. In case of any delinquency, the payouts are expected to be supported by Over Collateral, Excess Interest Spread and Cash Collateral (in the form of a Fixed Deposit).

**Rating Sensitivities***Positive Factors*

- Build-up of Cash Collateral (as a % of Balance POS)
- Lower than expected delinquencies

*Negative Factors*

- Deterioration in the collection efficiency of the pool
- Revision in rating of the originator, creating the prospect of Commingling / Servicer Risk

**Analytical approach & Applicable Criteria**[CARE's methodology for Asset / Mortgage Backed Securitization](#)**Key Rating Assumptions**

CARE has analyzed 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 observed the monthly performance of the pool since securitization and has compared the same with initial shortfall assumptions. CARE has also analyzed the overall portfolio performance of the originator. Considering the borrower profile, nature of loan, pool characteristics, portfolio performance and credit profile of originator, CARE has expected the base case shortfall to be in the range of 6.50% – 7.50% of principal outstanding. CARE has also considered the current delinquency level and amortization of the pool. The 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:**

Kanakadurga Leasing & Finance Limited (KLFL) was incorporated as a private limited company in 1994 to take over the auto financing business of the proprietary concerns floated by the promoters. The company was converted into a public company (closely held) in 1996. In May 2015, the company's name was changed to Kanakadurga Finance Limited (KFL). The promoter and current CMD of KFL entered into this field with his proprietary concern 'Sandireddy Lakshmi Narayana Automobile Finance Company' in 1980. Presently, the CMD's sons Mr. Jayaprakash Narayana and Mr. Srimannarayan have taken over the management of the business as Whole Time Directors. The company is currently having presence in the states / union territory of Andhra Pradesh, Telangana, Karnataka, Gujarat, Tamil Nadu and Pondicherry. The operations are conducted through its branches with majority of them catering to auto-financing business. It has total of 122 branches spread across 6 States as of Sep'19, with major presence in Andhra Pradesh. As on June 30, 2019 customer base of KFL was ~44,000. The company has also entered into SME and business loans segment in FY16. The company is, currently, rated as "CARE BBB; Stable" for long term obligations.

**Key Financial Indicators – KFL**

Year ended / As on	FY19 (A)	FY20 (A)
Total Income (Rs. Cr.)	98.93	127.74
PAT (Rs. Cr.)	5.63	7.23
Interest Coverage (times)	1.19	1.15
Total Assets (Rs. Cr.)	506	470
Net NPA (%)	1.70	2.60
ROTA (%)	1.32	1.48

A- Audited;

**Status of non-cooperation with previous CRA:**

Not Applicable

**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
Pass Through Certificates	-	-	-	0.52	CARE A+ (SO)
Pass Through Certificates	-	-	-	0.95	CARE A (SO)

**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.	Pass Through Certificates	LT	0.52	CARE A+ (SO)	-	1)CARE A+ (SO) (17-Feb-20) 2)CARE A+ (SO) (29-May-19) 3)Provisional CARE A+ (SO) (01-Apr-19)	-	-
2.	Pass Through Certificates	LT	0.95	CARE A (SO)	-	1)CARE A- (SO) (17-Feb-20) 2)CARE A- (SO) (29-May-19) 3)Provisional CARE A- (SO) (01-Apr-19)	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument /facilities: Not Applicable****Annexure-4: Complexity level of various instruments rated for this company**

Sr. No	Name of Instrument	Complexity Level
1	Pass through Certificates	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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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.

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