Kogta Financial (India) Limited

September 29, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Senior Secured Non Convertible Debentures	30.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Final Rating Confirmed
Total Long Term Instruments	**30.00 (Rs. Thirty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has assigned a rating of 'Provisional CARE A-; Stable' [Provisional CARE Single A Minus; Outlook: Stable] to the proposed Senior Secured Non-Convertible Debentures ("NCD"), issued by Kogta Financial India Limited (KFIL), covered with the Security pool of vehicle loan receivables assigned to by KFIL June 21.

The rating is now confirmed and rating of 'CARE A-; Stable' [CARE Single A Minus; Outlook: Stable] to the Senior Secured Non-Convertible Debentures of KFIL has been assigned. The rating assigned is finalized based on the structure provided to CARE by KFIL, the issuer.

While the structure provides an additional recourse to pool with a cover of 1.17x, no rating upgrade is proposed based on this to the Covered NCD structure. Unlike usual covered bond transactions, there is no trigger event in this structure to first utilize the pool cash flows to accelerate the payment to the NCD holders. Any adverse event directly leading to an EOD (and consequent acceleration of NCD) without giving sufficient time to SPV to service NCD is constraining the rating and place the default risk directly on the issuer rating. Hence, both the standalone rating of KFIL (CARE A- (Stable) and the proposed NCD structure is at the same level.

Detailed description of the key rating drivers

- Kogta Financial India Limited (hereinafter referred to as "KFIL", "the Company", "the Issuer", "the Originator" or "the Servicer" in this transaction) will issue Senior Secured Non-Convertible Debentures (hereinafter referred to as "NCD").
- The Company will assign the Assets (described in detail in Annexure II (Description of the Assets)) to the Assignee (i.e. SPV set up for the purpose) by way of a true sale for valid and sufficient consideration. The said consideration shall be made available in the form of a revocable contribution by the Company ("Contribution") to the Assignee such that the said Contribution and consideration may be netted off against each other.
- KFIL will assign the identified receivable to the SPV and shall also make corresponding contribution to the SPV. The NCD-holders are eligible to receive 36 monthly principal repayments in the tenor of the NCD issuance. In absence of EOD, the SPV shall utilize cash flows realized from assigned vehicle loan receivables a) to meet statutory/regulatory due owed by the SPV Trust, b) meet the security cover of 1.17x by acquiring additional receivables* and c) pay down the contribution of the issuer in the order of cash waterfall.
- Besides primary obligation of the Issuer to repay the NCD, the NCDs would be supported by (to be made available before deemed date of allotment):
  - an irrevocable and unconditional guarantee from the SPV backed by first and exclusive hypothecation of vehicle loan receivables ("Assets") to the extent of 1.17x cover held by the SPV and cash collateral of 5% of Issue Size
- The collections deposited in the C&P account shall be utilized to make consideration payment towards acquiring additional vehicle loans assets from KFIL. In the event such cash available with SPV is not sufficient to acquire additional receivable to maintain the cover pool at 1.17 times, the Issuer shall make additional contribution to enable the SPV to acquire additional vehicle loan assets from KFIL.
- If the Issuer is not able to make additional receivables available to meet the cover pool, all cash collected towards the Receivables which is available with the SPV Trust in the C&P Account shall be utilized towards repayment of the facility. The cover pool assets can be replenished by Issuer as per the pre-defined Eligibility criteria during the entire tenor of the Facility, should contracts from the existing pool not meet the criteria.
- The NCD-holders are eligible to receive 36 monthly principal repayments in the tenor of the NCD issuance.
- Issuer shall provide a Cash Collateral in the form of a Fixed Deposit lien marked in favour of the Debenture Trustee amounting to 5.0% of the Issue Size and shall be constant amount throughout the Tenor of the NCD. The cash collateral shall continue until the repayment of the entire NCD and shall not be released in part, irrespective of the fact that the NCD shall be repaid in part. In the Event of Default, the Cash Collateral can be immediately utilized by NCD Holder.

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

- The Debentures shall be secured by way an unconditional and irrevocable guarantee from the SPV backed by hypothecation of the receivables in the form of a first ranking and exclusive charge. The company shall also hypothecate its contribution as a residual beneficiary in the trust.
- The SPV shall purchase receivables with the Contribution made available by the Company and create the charge in favour of the Debenture Trustee for the benefit of the Debenture Holders. The Debentures shall be further secured by way of the cash collateral of 5% of the Issue Size for the tenor of the NCD which is being made available by the Company for securing the obligations of the Company in relation to the Debentures.

The NCD Holders are supported by the following:

- KFIL's internal accrual (Rated CARE A-; Stable, for its long term debt obligation), which is primary obligor
- SPV guarantee - provided by KFIL June 21, a Special Purpose Vehicle (SPV) to which KFIL will assign vehicle loan receivables with principal cover of 1.17 times the outstanding amount (including any accrued/ interest)
- Cash Collateral of 5% of Issue size provided in the form of Fixed Deposit by Issuer for the tenor of NCD marked as lien

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

1. The pool has been selected by KFIL, from the loan contracts currently on its books, by applying the following key criteria as on the cut-off date (May 31, 2021):
2. All the loans in the pool are fully disbursed loans;
3. There are no overdue contracts in the pool;
4. The selected loan contracts should be free from any encumbrances;
5. KFIL should not have initiated, nor should it currently propose to initiate legal / repossession action against any obligors.
6. The pool is moderately concentrated in terms of geography, with the top three states accounting for 76.35% of total pool POS; the top 5 branches comprise around 13.80% of the pool principal.
7. ~95% of the contracts in the pool have not availed the moratorium

During the entire tenor of the NCD of ~36 months from the Deemed Date of Allotment, the Company shall on a monthly basis assign additional loans that meet the eligibility criteria set out in Annexure II to the SPV such that the amounts outstanding under the loans constituting the Assets (which loans do not have any overdue for 60 days or more) shall not be less than [1.17]x. Contracts to be replaced in case overdue contracts exceed the above threshold.

Key Rating Strengths:

1. Three level of protection to the lender. i) KFIL's internal accruals, ii) Security Pool – SPV guarantee provided by KFIL June 21, a Special Purpose Vehicle (SPV) to which KFIL will assign vehicle loan receivables with principal cover of 1.17 times the outstanding amount (including any accrued/ interest) iii) Cash Collateral of 5% of Issue size provided in the form of Fixed Deposit by Issuer for the tenor of NCD marked as lien

Key Rating Weaknesses:

1. The collection performance of the portfolio of KFIL 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 or performance of the security cover pool.
2. Low seasoning of vehicle loan portfolio

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

Liquidity Position:

The inherent liquidity in the structure is adequate given the support available to the NCD holders. The support available to the NCD holder include KFIL's internal accruals, Security Pool with 1.17x cover. Also, the entire principal and interest is to be received in 36 monthly principal repayments in the tenor of the NCD issuance.

The company had no negative cumulative mismatches in any of the time bucket as on March 31, 2021. As on May 31, 2021, KFL has free cash and bank balance including free FDRs of Rs.45.85 crore, unutilized working capital limits of Rs.50 crore, unutilized OD against FD of Rs.155.25 crore and free current investments (mutual fund/equity market etc.) of Rs. 145.87 crore against its debt repayment obligation of Rs.100.89 crore in next 3 months (June 01, 2021 to August 31, 2021) and Rs. 487.52 crore in next one year (June 01, 2021 to May 31, 2022).

Rating Sensitivities

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

1. Upward revision of KFIL's standalone rating.

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

1. Downward revision in the standalone rating of the Issuer.
2. Non-adherence to the key transaction terms envisaged at the time of the rating.

Key Rating Assumptions

The analysis for the purpose of rating is based on a scenario that any adverse event directly leading to an EOD (and consequent acceleration of NCD) without giving sufficient time to SPV to service NCD is constraining the rating and place the default risk directly on the issuer rating.

CARE has applied the methodology for rating Asset / Mortgage Backed Transactions to analyze the Security Pool to assess whether the Cash Collateral is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of the underlying pool, CARE has analyzed the vehicle loan portfolio performance of the KFIL. 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. CARE has found that the Security Pool (including selection filters for additional loans) and Cash Collateral stipulated ensures sufficiency of cash flow w.r.t. the assigned rating.

About the Company

Incorporated in 1996, Kogta Financial India Limited. (KFL) is a Non-deposit taking Non-Banking Finance Company (NBFC-ND) mainly operating in the states of Rajasthan, Gujarat, Maharashtra and Madhya Pradesh. It is primarily engaged in financing of used and new vehicles including commercial vehicles, multi utility vehicles, cars, agriculture-based vehicles, etc. apart from financing of loan against property and personal loans. KFL has AUM of Rs.1,497 crore as on March 31, 2021 (increased from Rs.1,068 crore as on March 31, 2020) with large part of portfolio being secured loans.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)
Total operating income	169.38	245.44
PAT	24.94	45.14
Total Assets	1,267.14	1,883.91
Interest coverage (times)	1.48	1.76
ROTA (%)	2.45	2.87
Net NPA (%)	2.62	2.39

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE192U07202	July 8, 2021	9.65%	June 22, 2024	30.00	CARE A-; 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	100.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21)2)CARE A-; Stable (04-Feb-21)3)CARE A-; Stable (14-Jul-20)4)CARE A-; Stable (01-Jun-20)	1)CARE A-; Stable (04-Dec-19)2)CARE A-; Stable (14-Nov-19)	1)CARE BBB+; Stable (02-Jan-19)
2	Fund-based - LT-Term Loan	LT	500.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21)2)CARE A-; Stable (04-Feb-21)3)CARE A-; Stable (14-Jul-20)4)CARE A-; Stable (01-Jun-20)	1)CARE A-; Stable (04-Dec-19)2)CARE A-; Stable (14-Nov-19)	1)CARE BBB+; Stable (02-Jan-19)
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (04-Feb-21)2)CARE A-; Stable (14-Jul-20)	1)CARE A-; Stable (14-Nov-19)	1)CARE BBB+; Stable (02-Jan-19)
4	Debentures-Non Convertible Debentures	LT	15.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21)2)CARE A-; Stable (14-Jul-20)	1)CARE A-; Stable (14-Nov-19)2)CARE BBB+; Stable (25-Jul-19)	-
5	Debentures-Non Convertible Debentures	LT	20.25	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21)2)CARE A-; Stable (14-Jul-20)	1)CARE A-; Stable (07-Jan-20)	-
6	Debentures-Non Convertible Debentures	LT	10.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21)2)CARE A-; Stable (03-Jul-20)3)CARE A-; Stable (01-Jun-20)	-	-
7	Debentures-Non Convertible Debentures	LT	50.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21)2)CARE A-; Stable (03-Jul-20)	-	-
8	Debentures-Non Convertible Debentures	LT	15.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21)2)CARE A-; Stable (14-Jul-20)	-	-
9	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (04-Feb-21)2)CARE A-; Stable (14-Jul-20)	-	-
10	Debentures-Non Convertible Debentures	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21)2)CARE A-; Stable (19-Aug-20)	-	-

11	Debentures-Non Convertible Debentures	LT	30.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21)2)CARE A-; Stable (31-Aug-20)	-	-
12	Debentures-Non Convertible Debentures	LT	23.96	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21)2)CARE A-; Stable (29-Sep-20)	-	-
13	Debentures-Non Convertible Debentures	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21)2)CARE A-; Stable (22-Feb-21)3)CARE A-; Stable (04-Feb-21)4)CARE A-; Stable (23-Dec-20)5)CARE A-; Stable (12-Nov-20)	-	-
14	Debentures-Non Convertible Debentures	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21)2)CARE A-; Stable (22-Feb-21)3)CARE A-; Stable (04-Feb-21)4)CARE A-; Stable (23-Dec-20)5)CARE A-; Stable (12-Nov-20)	-	-
15	Debentures-Market Linked Debentures	LT	8.00	CARE PP MLD A-; Stable	1)CARE PP MLD A-; Stable (24-Sep-21)	1)CARE PP MLD A-; Stable (04-Feb-21)2)CARE PP MLD A-; Stable (23-Dec-20)	-	-
16	Debentures-Non Convertible Debentures	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21)2)CARE A-; Stable (22-Feb-21)3)CARE A-; Stable (04-Feb-21)4)CARE A-; Stable (23-Dec-20)	-	-
17	Debentures-Market Linked Debentures	LT	8.00	CARE PP MLD A-; Stable	1)CARE PP MLD A-; Stable (24-Sep-21)	1)CARE PP MLD A-; Stable (04-Feb-21)	-	-
18	Debentures-Market Linked Debentures	LT	8.00	CARE PP MLD A-; Stable	1)CARE PP MLD A-; Stable (24-Sep-21)	1)CARE PP MLD A-; Stable (04-Feb-21)	-	-
19	Bonds-Pooled Bond Issuance with Credit Enhancement Ratings	LT	20.00	CARE AA (CE); Stable	-	1)CARE AA (CE); Stable (09-Mar-21)2)Provisional CARE AA (CE); Stable (08-Feb-21)	-	-
20	Debentures-Non Convertible Debentures	LT	30.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Feb-21)	-	-

21	Debentures-Non Convertible Debentures	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21)2)CARE A-; Stable (22-Feb-21)	-	-
22	Debentures-Non Convertible Debentures	LT	20.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (08-Mar-21)	-	-
23	Debentures-Non Convertible Debentures	LT	35.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (08-Mar-21)	-	-
24	Debentures-Non Convertible Debentures	LT	30.00	CARE A-; Stable	1)Provisional CARE A-; Stable (05-Jul-21)	-	-	-
25	Debentures-Market Linked Debentures	LT	75.00	CARE PP MLD A-; Stable	1)CARE PP MLD A-; Stable (24-Sep-21)	-	-	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Financial Covenant

1. Capital Adequacy of Borrower not to fall below 20%
2. Gross Stage III assets of the Borrower not to exceed 5%
3. Financial Indebtedness to Tangible Net Worth (TOL/ TNW) ratio not to exceed 4.0 x
4. Cover of 1.17x to be maintained on the outstanding Facility at all points of time and subject to pool selection criteria.
5. Cumulative Asset Liability mismatch should always be positive in all the buckets upto 1 year
6. Management control to remain with Kogta family
7. Mr. Arun Kogta and Mr. Varun Kogta remaining on the board of the Company
8. Rating downgrade of the Borrower below BBB+ by any rating agency (Current rating – CARE A-)

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

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

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

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