

**Northern Arc 2019 2W Legasov**  
**(Originator: Kanakadurga Finance Limited)**  
 August 04, 2020

**Ratings**

Instrument	Outstanding PTC Amount (Rs. crore) <sup>@</sup>	Tenure (months)*	Enhancement (Rs. Crore)		Rating <sup>1</sup>	Rating Action
			Over Collateral	Cash Collateral		
Series A1 PTCs	1.32 (Rs. One Crore thirty one lakh Only)	18	1.11	0.50	CARE A (SO) [CARE Single A (Structured Obligation)]	Reaffirmed
Series A2 PTCs	0.30 (Rs. Thirty Lakhs Only)		0.81		CARE BBB+ (SO) [CARE Triple B Plus (Structured Obligation)]	

*@ After June 2020 Payout*

*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 (Structured Obligation)'] on the Series A1 PTCs and 'CARE BBB+ (SO)' [pronounced as 'CARE Triple B Plus (Structured Obligation)'] on the Series A2 PTCs issued by Northern Arc 2019 2W Legasov backed by Two Wheeler Loan receivables originated by Kanakadurga Finance Limited (KFL).

The rating reaffirmation is primarily based on the performance of the underlying loans over the past 12 months post securitisation. In addition, it draws comfort from the available credit cum liquidity enhancement facility and EIS support, transaction structure and defined payment mechanism, and sound legal structure of the transaction. Both Moratorium 1.0 and Moratorium 2.0 has been approved by the investor for the payout scheduled from April 2020 to September 2020. Collections received during moratorium will be transferred to the trustee and trustee will utilize those collections towards payments to PTC holders. Credit Enhancement utilization during the moratorium has been suspended and legal final maturity will be extended. Further, CARE has factored in the overall performance of KFL.

**Detailed description of the key rating drivers**

The pool has amortized by 75.8% in 12 months post securitization, with nil utilization of Cash collateral. The pool has exhibited high delinquencies. As of June 2020, OD (as a % of initial POS) is 6.7%. The pool has a cumulative collection efficiency of 84.6%. The decrease in efficiency by 10.5% compared to March 2020 is due to the approval of moratorium on underlying contracts. After amortizing 75.8%, the CC available is sufficient to sustain the rating for the balance tenor.

Pool Summary (as of June 2020 Payout)	
Months Post Securitisation	12
Pool Amortisation	75.8%
90+ Delinquency (% of Initial POS)	4.6%
180+ Delinquency (% of Initial POS)	0.3%
Overdue Amt (% of Initial POS)	6.7%
CCE	84.6%
CC as % of Balance POS	20.6%
Cumulative Prepayments	3%

**Key Rating Strengths:**

- High amortization of the pool (75.8%)
- Cash Collateral (CC) as % of Balance POS is 20.6% and is unutilized.

<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 Weaknesses:**

- As of June'20, OD (as a % of initial POS) is 6.7%

**Rating Sensitivities**

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

- Build-up of cash collateral (as % of Balance POS)
- Lower than expected delinquencies

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

- Impact of COVID-19 pandemic and Moratorium period on Pool Collections.
- Downward revision in rating of originator, creating the prospect of Commingling / Servicer Risk.
- Deterioration in the pool performance of the originator may impact the overall performance.

**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).

**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 assumed the shortfall between 7.0% – 8.0% 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 Finance Limited (KFL) was incorporated as a Private Limited Company in 1994 to take over the vehicle financing business of the proprietary concerns floated by the promoters. The company was converted into a Public Limited Company (closely held) in 1996. During May 2015, the name of the company was changed to Kanakadurga Finance Limited (KFL) from the earlier name of Kanakadurga Leasing & Finance Limited (KLFL). KFL is registered as an asset financing company and non-deposit taking NBFC with RBI and is primarily engaged in the business of vehicle financing and gold loans.

During FY19, KFL reported a PAT of Rs.5.93 crore on a total income of Rs. 98.88 crore as against PAT of Rs.5.63 crore on a total income of Rs.56.08 crore in FY18.

<b>Brief Financials (Rs. Crore)</b>	<b>FY19(A)</b>	<b>FY20(P)</b>
Total operating Income (in Rs. Cr)	98.93	127.74
Profit After Tax (in Rs. Cr)	5.63	7.23
Interest Coverage (times)	1.19	1.15
Total Assets	506	470
Net NPA ratio (%)	1.70	2.60
ROTA (%)	1.32	1.48

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
Series A1 Pass through certificates	July 12,2020	11.65%	Dec'21	1.32	CARE A (SO)
Series A2 Pass through certificates		14.50%	Dec'21	0.30	CARE BBB+ (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	1.32	CARE A (SO)	-	1)CARE A (SO) (05-Sep-19) 2)Provisional CARE A (SO) (02-Jul-19)	-	-
2.	Pass Through Certificates	LT	0.30	CARE BBB+ (SO)	-	1)CARE BBB+ (SO) (05-Sep-19) 2)Provisional CARE BBB+ (SO) (02-Jul-19)	-	-

**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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