

**Northern Arc 2020 SBL Moira**  
**Originator: Ess Kay Fincorp Limited**

November 27, 2020

**Ratings**

Instrument	Amount (Rs. Crore)	Structure	Yield	Tenure* (months)	Rating <sup>1</sup>	Credit Enhancement( Rs. Crore)	
						Over Collateral	Cash Collateral
Series A1 PTC	40.00 (Rs. Forty Crore only)	Par	Fixed	106	Provisional CARE AA (SO) [Provisional CARE Double A (Structured Obligation)]	7.34	2.37
Series A2 PTC	1.42 (Rs. One Crore and forty two lakhs only)				Provisional CARE A+ (SO) [Provisional CARE Single A plus (Structured Obligation)]	5.92	

*#Series A PTC is rated on Ultimate Payment basis*

*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 assigned a rating of 'Provisional CARE AA (SO)' [pronounced as 'Provisional CARE Double A (Structured Obligation)'] to the Series A1 PTCs and rating of 'Provisional CARE A+ (SO)' [pronounced as 'Provisional CARE Single A plus (Structured Obligation)'] to the Series A2 PTCs issued by Northern Arc 2020 SBL Moira backed by SME Loan receivables originated by Ess Kay Fincorp Limited (EFL).

The rating for PTCs is provisional based on the structure provided to CARE by EFL, the Originator & Assignor. The rating will be confirmed after the copies of legal 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 Assignor, to the satisfaction of CARE.

The rating is based on the credit quality of the underlying loans, the transaction structure and defined payment mechanism, support in the form of credit-cum-liquidity enhancement facility and the sound legal structure of the transaction.

**Rating Sensitivities**

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

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

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

1. Deterioration in pool collections due to COVID-19 pandemic and nationwide lockdown.
2. Downward revision in rating of originator, creating the prospect of Commingling / Servicer Risk.
3. Deterioration in the overall pool performance.

**Detailed description of the key rating drivers**

The credit enhancement includes cash collateral, over collateral and subordination of excess interest spread (EIS) of Rs. 18.78 Cr (39.67% of POS) in the structure. Cash collateral will be in the form of fixed deposit with a lien marked in favor of the trust or in the form of guarantee as per CARE's criteria. Series A2 PTCs are subordinated to Series A1 PTCs and thus acts as a credit enhancement. Over collateral is fully subordinated to both Series A1 and Series A2 PTCs. EIS arising in a month shall be available for meeting the payouts to Series A1 PTCs and Series A2 PTCs and replenishment of cash collateral.

The transaction is structured at par. Collections of a particular month will be utilized to make promised interest and expected principal payouts to Series A1 PTCs and expected interest payment to Series A2 PTCs. After maturity of Series A1 PTCs, collections will be utilized to make promised interest and expected principal payout to Series A2 PTCs. Any excess amount after making payment to Series A1 and Series A2 PTCs will flow back to the originator on a monthly basis. In case of shortfall in payment to Series A1 & A2 PTCs, cash collateral will be utilized only on the last payout date for making principal payouts. Till the maturity of Series A1 PTCs, prepayments during a month will be paid to Series A1 PTCs and will subsequently be passed to Series A2 PTCs. No principal payment shall be made to the residual beneficiary till series A PTCs have matured. KFL will act as the servicer to the transaction.

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

The pool assigned to the SPV by EFL, consists of 1,066 SME Loan contracts aggregating to principal outstanding of Rs. 47.34 crore. The pool has high weighted average net seasoning of 19.09 months as on the pool cut-off date (31st October 2020). The pool is highly concentrated; top three states accounting for 99.70% of the pool principal with top state (Rajasthan) accounting for 93.47% of the total pool POS. The pool has amortized by ~15%. All the contracts are current on payment. The Pool has weighted average IRR of ~20%.

#### Key Rating Strengths:

1. Available Credit Enhancement comprising of Over Collateral of Rs. 5.92 Cr (12.50% of POS), Cash Collateral of Rs. 2.37 Cr (5.00% of POS), and subordination of EIS of Rs. 18.78 cr. (39.67% of POS)
2. There are no overdue contracts in the pool.
3. None of the contracts in the pool have availed the Moratorium

#### Key Rating Weaknesses:

1. Geographic concentration in the pool, top state (Rajasthan) comprises ~93% of the pool principal.

#### Analytical approach & Applicable Criteria

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

#### Liquidity Position

The inherent liquidity in the structure is strong. 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 both Series A1 and Series A2 PTCs is 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).

#### 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 analyzed the performance of static pools provided by the originator and overall portfolio performance of the originator. Considering the borrower profile, nature of loan, pool characteristic and portfolio performance, CARE has assumed the shortfall between 9.0% – 10.0% 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 1994, Ess Kay Fincorp (EFL) is a non-deposit taking NBFC operating out of Rajasthan. The company is promoted by Mr Rajendra Setia along with his family members. EFL has long track record of over 15 years in vehicle financing. Over a period of time, Ess Kay has built active large customer base of 1,59,656 as on September 30, 2020 leading to substantial repeat business with less effort. Also, it has built decent employee strength of 3,928 including professional team of top management with 329 branches in six states viz. Rajasthan, Gujarat, Punjab, Maharashtra, Haryana and Madhya Pradesh.

At the end of Sep'20, EFL's AUM stood at Rs. 2,830.62 Cr. The portfolio mix comprised loans against CV (55%), Car (16%), MSME (10%), Tractor (17%) and two wheeler (2%).

Currently, the company is rated "CARE A; Stable" for its long term obligations.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	380.90	582.40
PAT	63.47	78.54
Interest coverage (times)	1.62	1.45
Total Assets*	2,246.11	3,624.21
Net NPA (%)*	2.60	2.42
ROTA (%)*	3.67	2.68

\*considering own book portfolio

#### 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	-	-	Sep'29	40.00	Provisional CARE AA (SO)
Series A2 Pass Through Certificates	-	-		1.42	Provisional 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.	Series A1 Pass Through Certificates	LT	40.00	Provisional CARE AA (SO)	-	-	-	-
2.	Series A2 Pass Through Certificates	LT	1.42	Provisional CARE A+ (SO)	-	-	-	-

## Annexure 3: 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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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**