

Rating Rationale

April 11, 2022 | Mumbai

IIALRT-I Trust

(Originator: SREI Equipment Finance Limited)

Issuer not cooperating, based on best-available information; Rating continues to be 'CRISIL B+ (SO) Issuer Not Cooperating'; continues on 'Watch Negative'

Rating Action

Trust Name	Details	Amount Rated (Rs Crore)	Outstanding Rated Amount (Rs Cr) @	Original Tenure (Months)	Balance Tenure (months)	Credit Collateral (Rs Crore)	Rating/Credit Opinion	Rating Action
IIALRT-I Trust	Series A PTCs	175.25	26.31	54	22	22.96	CRISIL B+ (SO)/Watch Negative/ISSUER ^{\$} NOT COOPERATING*	ISSUER ^{\$} NOT COOPERATING*; Continues on 'Rating Watch with Negative Implications'

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

*Issuer did not cooperate; based on best-available information

^{\$}by issuer we mean the originator/servicer of the pool

Please note that the rating(s) are based on best available information with the credit rating agency: the entity whose debt is being published via this press release did not provide the requisite information needed to conduct the rating exercise and is therefore classified as 'non cooperative'.

Non cooperation by Issuer

CRISIL Ratings has been consistently following up with Srei Equipment Finance Limited (SEFL) through emails dated March 26, 2021, April 02, 2021, July 21, 2021, October 04, 2021, January 07, 2022 and April 05, 2022. However SEFL has been unable to provide up to date information on an ongoing basis.

'The investors, lenders and all other market participants should exercise due caution with reference to the rating assigned/reviewed with the suffix 'ISSUER NOT COOPERATING' as the rating is arrived at without any management interaction and is based on best available or limited or dated information on the company. Such non co-operation by a rated entity may be a result of deterioration in its credit risk profile. These ratings with 'ISSUER NOT COOPERATING' suffix lack a forward looking component.'

Detailed Rationale

Despite repeated attempts to engage with the management, CRISIL Ratings failed to receive adequate information on the performance of the obligors in the pool and its reconciliation with the payouts done. CRISIL Ratings believes that the rating action is consistent with 'Assessing Information Adequacy Risk'.

CRISIL Ratings has noted recent development that on October 04, 2021, RBI superseded the Board of Directors of SIFL and SEFL owing to governance concerns and payment defaults by SREI Group Companies. Through an order on October 08, 2021, NCLT Kolkata bench initiated corporate insolvency resolution process against SREI Group Companies under the Insolvency and Bankruptcy Code 2016. Any further development in this relation shall be closely monitored by CRISIL.

On account of continued weakness in the credit profile of the servicer, rating on Series A pass-through certificates (PTCs) issued by 'IIALRT-I Trust' remains at 'CRISIL B+ (SO) Issuer Not Cooperating'. The rating continues on 'Rating Watch with Negative Implications'.

The PTCs are backed by IT, Health care and Construction Equipment rental receivables leased out by SREI Equipment Finance Limited (SEFL) to corporate lessees. The transaction has a timely interest and ultimate principal structure.

CRISIL Ratings' methodology for rating PTCs factors the credit risk profile of the originator/servicer along with the expected collection performance of the underlying pool. Linkage to servicer is critical from two aspects: 1) Collections or recovery from underlying contracts and 2) Bankruptcy-remoteness of cash collateral. CRISIL Ratings has noted that there was a judicial precedent on access to cash collateral for securitised pools in one specific originator / servicer. Hence, CRISIL Ratings' believes that weakening of the credit risk profile of the servicer reduces the extent of de-linkage of securitised pool rating from the servicer credit profile.

Key Rating Drivers & Detailed Description

Strengths:

- Credit quality of the obligors: The underlying lessees are of good credit quality with most of the lessees estimated to have credit quality equivalent to investment grade.

Weakness:

- Credit quality of the servicer / lessor: The lessees directly deposit the lease rentals into the C&P account hence servicing risk in this transaction is considerably lower than that in typical securitisation transactions. However, servicing remains critical as recoveries post default of any of the lessors will be dependent on the ability of the servicer to effect roll-backs and settlements with the defaulting parties.
- Heightened Fixed Deposit (FD) accessibility risk: Trustee's ability to access credit collateral by getting approval from SEFL is a key monitorable.
- Borrower concentration: The pool is concentrated with top 10 lessees constituting the major proportion.
- Receivables are non-financial obligations of the obligors: The lease rentals are operating obligations of the lessees and not financial obligations. As per the lease agreements, the lease obligations are non-cancellable, absolute and unconditional obligations of the lessees, which provides comfort regarding the lease repayments.

Liquidity: Poor

Liquidity is poor given that the credit enhancement in the structure may not be available to cover pool losses even at the level of currently estimated base shortfalls

CRISIL Ratings has adequately factored these aspects in its rating analysis

Rating Sensitivity factors**Upward factors**

- Trustee able to demonstrate access to cash collateral in a timely manner.

Downward factors

- Inability of the Trustee to access cash collateral as set out under transaction terms
- Deterioration in pool performance

About the Pool

The pool comprises rental receivables from construction, IT and healthcare equipment leases originated by SEFL.

Pool Performance Summary*

After Mar 2022 payouts	Parameters
Asset class	IT, Construction and Healthcare Equipment
Months post securitisation	32
Balance Tenure	22
Amortisation	85.0%
Credit collateral as a percentage of future investor payouts	82.4%
Credit collateral utilisation	0.0%

*Based on Trustee reports received

Counterparty details

Capacity	Counterparty Name	Counterparty Rating / Track record	Effect on credit ratings in case of non-performance
Originator / Servicer	SEFL	Not rated by CRISIL	Significant effect; Servicer's ability to service the securitised contracts is a key input to the rating of PTCs
Collection and Payout Account Bank	IndusInd Bank	Rated 'CRISIL AA+/CRISIL AA/Stable/CRISIL A1+'	Negligible effect. Account bank can be changed without impacting the rating.
First Loss Facility in the form of Fixed Deposit	IndusInd Bank	Rated 'CRISIL AA+/CRISIL AA/Stable/CRISIL A1+'	Negligible effect. Bank with whom the fixed deposit is maintained can be changed without impacting the rating.
Trustee	Axis Trustee Services	Adequate track record	Negligible effect. Can be replaced at minimal cost.

About the Company

SEFL is registered with RBI as a non-deposit taking NBFC (Category-Asset Finance) and provides financial products and services to a wide spectrum of assets such as construction and mining equipment, information technology equipment and solutions, healthcare equipment and farm equipment. It is a wholly owned subsidiary of Srei Infrastructure Finance Limited (SIFL).

SEFL was a 50:50 joint venture between SIFL, India's only private sector infrastructure finance company; and BNP Paribas Lease Group (BPLG), one of the largest leasing groups in Europe. Pursuant to share purchase agreement dated December 29, 2015, executed between SIFL, BPLG, SEFL, SREI Growth Trust, Mr. Hemant Kanoria, and Mr. Sunil Kanoria, BPLG agreed (i) to acquire 2,51,54,317 equity shares of SIFL representing 5% of total paid up equity share capital and (ii) in lieu thereof, sell its entire shareholding of 2,98,30,000 equity shares in SEFL representing 50% of the total paid-up equity share capital to SIFL in accordance with applicable laws. The transaction was completed on June 17, 2016, when SEFL became a wholly owned subsidiary of SIFL.

Key Financial Indicators

Particulars	Unit	2020** ^	2019**
Total Assets	Rs. Cr.	37,039	26,605
Total income	Rs. Cr.	5079	4367
Profit after tax	Rs. Cr.	56	306
Report Gross NPA	%	8.6	6.2
Adjusted Gearing*	Times	NA	9.2
Return on assets	%	0.2%	1.2%

*Adjusted gearing is calculated as adjusted borrowings (or book borrowings + securitised portfolio)/networth

^ after taking effect of slump exchange of wholesale infrastructure loan portfolio along with the corresponding liabilities Srei Infrastructure Finance Ltd (SIFL),

**As per IND-AS

Past rated pools

CRISIL Ratings has rating outstanding on only this transaction originated by SEFL. CRISIL is receiving incomplete trustee report pertaining to these securitisation transactions.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

Type of Instrument	Rated Amount (Rs Cr.)	Date of Allotment	Maturity Date*	Coupon Rate (%) (Annulaised)	Outstanding Rating ^{&}	Complexity Level	Credit cum liquidity Enhancement (Rs Cr.)
Series A PTCs	175.25	25-July-19	15-Jan-24	9.00%	CRISIL B+ (SO)/Watch Negative/Issuer\$ Not Cooperating	Highly Complex	22.96 [^]

*Indicates door to door tenure. Actual tenure will depend on the level of prepayments in the pool, and exercise of the clean-up call option

[^]no internal credit enhancement

[&]Timely interest and ultimate principal structure

^{\$}here by issuer we mean the originator/servicer of the pool

Annexure - Rating History for last 3 Years

		Current		2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Series A PTCs	LT	26.31	CRISIL B+ (SO)/Watch Negative(Issuer Not Cooperating)*	11-01-22	CRISIL B+ (SO) /Watch Negative(Issuer Not Cooperating)*	13-10-21	CRISIL B+ (SO) /Watch Negative(Issuer Not Cooperating)*	19-11-20	CRISIL A- (SO) /Watch Negative	20-12-19	Provisional CRISIL AA (SO) /Watch Negative	--
			--		--	22-07-21	CRISIL BB+ (SO) /Watch Negative(Issuer Not Cooperating)*	07-09-20	CRISIL A+ (SO) /Watch Negative	10-10-19	Provisional CRISIL AA (SO) /Watch Negative	--
			--		--	23-04-21	CRISIL BB+ (SO) /Watch Negative(Issuer Not Cooperating)*	03-06-20	CRISIL A+ (SO) /Watch Negative		--	--
			--		--	16-03-21	CRISIL BB+ (SO) /Watch Negative	24-04-20	CRISIL AA (SO) /Watch Negative		--	--
			--		--		--	14-02-20	CRISIL AA (SO) /Watch Negative		--	--
			--		--		--	24-01-20	Provisional CRISIL AA (SO) /Watch Negative		--	--

All amounts are in Rs.Cr.

* - Issuer did not cooperate; based on best-available information

Criteria Details

Links to related criteria
CRISILs rating methodology for ABS transactions
Evaluating risks in securitisation transactions - A primer
Legal analysis in structured finance transactions
Assessing Information Adequacy Risk

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