

March 22, 2022

Akara Capital Advisors Private Limited: Provisional [ICRA]BBB-(SO) assigned to PTCs backed by personal loan receivables issued by Jessica 02 2022

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Jessica 02 2022	PTC Series A1	9.74	Provisional [ICRA]BBB-(SO); Assigned

*Instrument details are provided in Annexure-1

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Akara Capital Advisors Private Limited (Akara; rated [ICRA]BBB-(Stable)/[ICRA]A3). The PTCs are backed by a pool of Rs. 11.95-crore personal loan receivables (underlying pool principal of Rs. 10.47 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts as well as the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 10.0% of the initial pool principal to be provided by the Originator, (ii) over-collateralisation of 7.0% of the pool principal for PTC Series A1, and (iii) the entire excess interest spread (EIS) in the structure. The rating is also based on the integrity of the legal structure and is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, subordination and CC
- Absence of overdue contracts as on pool cut-off date
- Low obligor concentration of the pool with top 10 obligors' share at 1.5%

Credit challenges

- Pool has high geographical concentration with top 3 states accounting for around 51% of the pool
- Higher share of contracts with lower ticket size (<Rs. 40,000) and higher internal rate of return (>2.0% p.m.)
- Pool's performance will remain exposed to any fresh disruptions caused by Covid-19 pandemic

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The collections from the pool, after making the promised interest payouts to PTC Series A1, will be used to make the expected principal payouts to PTC Series A1 (to the extent of pool principal billed). Any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. The entire principal repayment to PTC Series A1 is promised on the scheduled maturity date. All excess collections in the pool, after meeting the payouts, will flow back to the Originator on a monthly basis. The principal amount collected upon the pre-termination of a contract will be paid to PTC Series A1.

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation (i.e. subordination) of 10.0% of the pool principal. Additionally, the EIS available in the structure provides credit support. A CC of 7.0% of the initial pool

principal to be provided by Akara acts as further credit support in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC to meet the shortfall.

There were no overdues in the pool as on the cut-off date. The pool consists of loans with moderate seasoning with a weighted average seasoning of around 8 months and pre-securitisation amortisation of 41%. The pool has high geographical concentration with the top 3 states (Maharashtra, Delhi and Karnataka) accounting for 51.5% of the pool principal. The pool's performance will remain exposed to any fresh disruptions caused by the pandemic.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The mean and the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of Akara's loan portfolio. Given the short track record of Akara in the personal loan business, ICRA has also considered the credit quality experience of other more established players and ICRA's expectation of the credit quality of personal loans. Akara's target borrower segment could be financially vulnerable as well as subject to various seasonality factors. The inherent riskiness in Akara's portfolio also remains high due to the unsecured nature of the loans.

The resulting collections from the pool – after incorporating the impact of losses and prepayments as above – are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks for the target rating.

For the current pool, after considering the above-mentioned factors regarding the asset class and after adjusting for key features like seasoning, overdues, ticket size, interest rate, bureau score, and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 9.25% to 10.25%, with certain variability around it. The prepayment rate in the pool is estimated at 8.0% to 12.0% p.a.

Liquidity position: Adequate

As per the transaction structure, only the interest amount is promised to the PTC Series A holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available CE are expected to be adequate to meet the promised payouts to the PTC Series A1 investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the CE cover for the remaining payouts.

Negative factors – Pressure on the rating could emerge on the sustained weak collection performance (monthly collection efficiency <90%) of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of Akara's portfolio till December 2021, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
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Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

Akara is a Delhi-based non-deposit taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI) since 2016. It started operations in 2017. The company primarily provides unsecured short-term personal loans to salaried individuals through web and mobile platforms. It was started by Mr. Tushar Aggarwal, Ms. Shruti Aggarwal and Mr. Parikshit Chitalkar, who have several years of experience in the financial services industry.

Akara is currently owned by Morus Technologies, a Singapore-based neobanking start-up backed by investors like Tencent, Blowfish Ventures, Divine Blessings, Altara Ventures, Uncorrelated Ventures, etc. Akara is a 100% subsidiary of Morus Technologies (holding company incorporated in Singapore). The Group has another 100% subsidiary, EQX Analytics Private Limited (EQXAPL), which houses the technology platform known as StashFin and sources leads. The technology platform is used by Akara and other co-lenders for lending to customers.

Akara has a pan-India presence and ~26% of its assets under management (AUM) comprised small-ticket size loans (Rs. 10,000 and >Rs. 5 lakh) as on December 31, 2021. Total disbursements stood at Rs. 163 crore in FY2021 compared to Rs. 244 crore in FY2020. In 9M FY2022, disbursements stood at Rs. 490 crore. On a standalone basis, Akara reported a profit after tax (PAT) of Rs. 1.8 crore in FY2021 on a total managed asset base of Rs. 157.7 crore as on March 31, 2021 compared to a PAT of Rs. 0.8 crore in FY2020 on a total managed asset base of Rs. 168.6 crore as on March 31, 2020. In 9M FY2022, the company reported a PAT of Rs. 3.7 crore on a total managed asset base of Rs. 451.5 crore (based on provisional financials). As on December 31, 2021, the company's standalone net worth was Rs. 188.8 crore with a gearing of 1.1 times supported by an equity infusion of Rs. 62 crore by the parent in Q3 FY2022.

Key financial indicators

Akara (Standalone)	FY2020 (Audited)	FY2021 (Audited)	9M FY2022 (Provisional)
Net worth	40.1	76.7	188.8
Profit after tax	0.8	1.8	3.7
Assets under management	159.8	113.7	392.3
Gross NPA**	0.8%	0.0%	0.0%
Net NPA	0.7%	0.0%	0.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; **Recognised on 180+ days past due (dpd) basis
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
1 Jessica 02 2022	PTC Series A1	9.74	9.74	March 22, 2022 Provisional [ICRA]BBB-(SO)	-	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Jessica 02 2022	PTC Series A1	March 2022	13.00%	April 2025	9.74	Provisional [ICRA]BBB-(SO)

* Scheduled maturity date at transaction initiation; may change on account of prepayments

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sushant Vanmali

+91 22 6114 3436

sushant.vanmali@icraindia.com

Mithil Thakkar

+91 22 6114 3432

mithil.thakkar@icraindia.com

Palak Bhatt

+91 22 6114 3400

palak.bhatt@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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