

April 29, 2022

## Muthoot Microfin Limited: Rating confirmed as final for PTCs backed by microfinance loan receivables issued by Peterson 01 2022

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Peterson 01 2022	PTC Series A1	97.50	[ICRA]A(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure-1

### Rationale

In February 2022, ICRA had assigned a Provisional [ICRA]A(SO) rating to PTC Series A issued by Peterson 01 2022. The pass-through certificates (PTCs) are backed by a pool of Rs. 126.99-crore microfinance loan receivables (underlying pool principal of Rs. 108.34 crore) originated by Muthoot Microfin Limited (MML). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool's performance after the March 2022 payout is shown in the table below.

Parameter	Peterson 01 2022
Months post securitisation	2
Pool amortisation	9.66%
PTC Series A1 amortisation	10.84%
Monthly collection efficiency*	99.34%
Monthly prepayment rate	1.10%
Loss-cum-0+ days past due (dpd)	1.01%
Loss-cum-30+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

\*(current collection + advance collection) / current billing

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), over-collateralisation and cash collateral (CC)
- No overdue contracts in the pool as on the cut-off date

#### Credit challenges

- High geographical concentration with top 3 states contributing around 81% to the pool principal
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic
- Performance of the pool would also remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pool's performance would be exposed to political and communal risks

### Description of key rating drivers highlighted above

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. Further credit support is available in the form of an EIS of 11.1% and a CC of 10.0% of the initial pool principal (i.e. Rs. 10.83 crore) provided by MML in the transaction.

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A1 at the predetermined interest rate on the principal outstanding. The principal repayment to PTC Series A1 is promised on the last payout date. During the tenure of PTC Series A1, the collections from the pool, after making the promised interest payouts, will be used to make the expected principal payouts to PTC Series A1 and the excess will flow back to the originator. This principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. All prepayment amounts would be passed on to PTC Series A1 (till the PTC Series A1 principal is not fully amortised) every month and its future payouts will be revised accordingly. Also, 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 are no overdues in the pool as on the cut-off date. The pre-securitisation amortisation is moderate at ~20% as on the cut-off date. The pool has high geographical concentration with the top 3 states contributing ~81% to the pool principal amount. At the district level, the top 5 districts account for ~30% of the initial pool principal amount. The performance of the pool would be exposed to natural calamities that may impact the income-generating capability of the borrower and political and communal risks. Also, it would remain exposed to any fresh disruptions that may arise due to the pandemic.

**Past rated pools performance:** ICRA had rated nine microfinance loan receivables PTC transactions originated by MML. The performance of other five live pools has been robust with cumulative collection efficiency above 97% and nil CC utilisation as of the March 2022 payout.

## Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 5.0-6.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-9.0% per annum.

## Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors. The CC is sufficient to meet the promised interest payouts to the PTC holders for 13 months.

## Rating sensitivities

**Positive factors** – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

**Negative factors** – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

## Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the company

Muthoot Microfin Limited (MML) is part of the Muthoot Pappachen Group. The Muthoot Pappachen Group is highly diversified, having its presence in Financial Services, Insurance & Broking services, Precious Metals, Automotive, Hospitality, Real Estate, IT Infrastructure, Alternate Energy, Health Care & IT. The company entered into the business of microfinance in the year 2010, as a division of Muthoot Fincorp Ltd. The product was named as Muthoot Mahila Mitra. The first branch of Muthoot Microfin was opened in Choolaimedu (Chennai), Tamil Nadu (March 2010). The company operates with the concept of Joint Liability Groups (JLG) or Group Guarantee. As of Mar-21, Muthoot Fincorp Limited (CRISIL A/A1) holds ~64% stake in the company. Since Mar-16 the company has grown its presence PAN India and is presently operating across 15 states. As on Dec-21, the company had 850 branches (increased from 745 branches as on Dec-20) across 15 states. As of Dec-21, the company had a portfolio size of about Rs. 5,399 crore with a borrower base of 24.04 lakh. Most of the portfolio is concentrated in the states of Kerala, Tamil Nadu and Karnataka.

## Key financial indicators

Particulars	FY2019	FY2020	FY2021
Total income (Rs. crore)	750.4	859.4	696.3
Profit After Tax (Rs. crore)	201.2	18.2	7.1
Asset under management (Rs. crore)	4,168.0	4,702.0	4,950.4
Gross non-performing assets (NPA) (90+dpd) (%)	2.0%	5.8%	8.1%
Net NPA%	1.2%	4.1%	1.5%

Source: Company, ICRA Research; All ratios as per ICRA calculations; Amounts in Rs. Crore;

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Trust Name	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
1	Peterson 01 2022	PTC Series A1	97.50	97.50	April 29, 2022 [ICRA]A(SO)	February 11, 2022 Provisional [ICRA]A(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](http://www.icra.in)

### Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Peterson 01 2022	PTC Series A1	February 2022	9.50%	October 2023	97.50	[ICRA]A(SO)

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

Source: Company

### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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For more information, visit [www.icra.in](http://www.icra.in)

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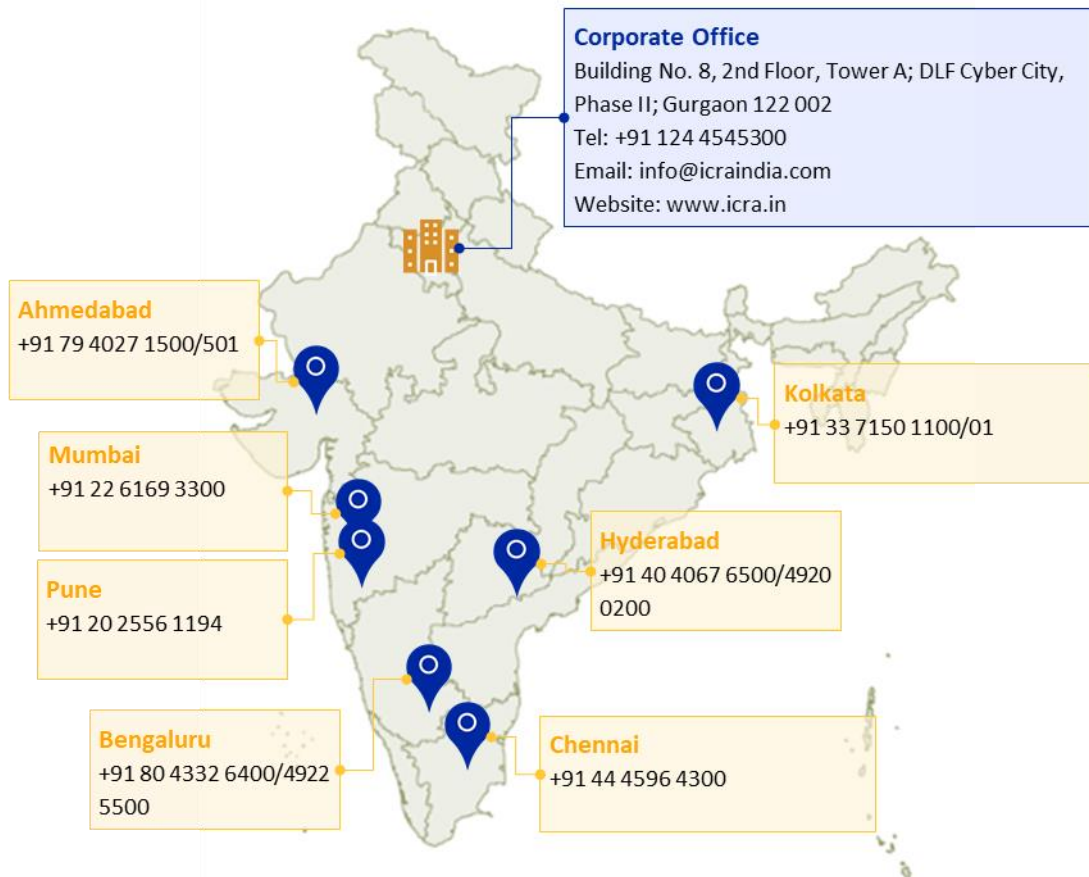
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