

May 11, 2022

## Namra Finance Limited: Ratings confirmed as final for PTCs backed by microfinance loan receivables issued by Northern Arc 2022 MFI Albany

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Northern Arc 2022 MFI Albany	PTC Series A1(a)	16.27	[ICRA]A(SO); provisional rating confirmed as final
	PTC Series A1(b)	0.57	[ICRA]A-(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure-1

### Rationale

In April 2022, ICRA had assigned a Provisional [ICRA]A(SO) rating to PTC Series A1(a) and Provisional [ICRA]A-(SO) rating to PTC Series A1(b) issued by Northern Arc 2022 MFI Albany. The pass-through certificates (PTCs) are backed by a pool of Rs. 22.80-crore microfinance loan receivables (underlying pool principal of Rs. 18.92 crore) originated by Namra Finance Limited (NFL). 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 ratings have now been confirmed as final.

A summary of the performance of the pool after the April 2022 payout month has been provided below.

Parameter	Northern Arc 2022 MFI Albany
Months post securitisation	1
Pool amortisation	5.05%
PTC Series A1(a) amortisation	5.88%
PTC Series A1(b) amortisation	0.00%
Cumulative collection efficiency (including advance collections)	100.20%
Loss-cum-0+ dpd	0.25%
Loss cum 30+ dpd	0.00%
Cumulative Prepayment rate	0.20%
Cumulative cash collateral (CC) utilisation	0.00%

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and CC
- Absence of overdue contracts as on pool cut-off date

#### Credit challenges

- Geographical concentrated pool with top three states contributing to around 85% of the pool principal.
- Performance of pool would 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
- Pool performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

## Description of key rating drivers highlighted above

The first line of support for PTC Series A1(a) in the transaction is in the form of subordination of 14.00% of the pool principal [includes principal payable to PTC Series A1(b)]. After PTC Series A1(a) has been fully paid, subordination of 11.00% of the pool principal (includes equity tranche and overcollateralization) will be available for PTC Series A1(b). Further credit support is available in the form of an EIS of 13.13% for PTC Series A1(a) and 13.13% for PTC Series A1(b). A CC of 5.00% of the initial pool principal, to be provided by NFL, would act as further credit enhancement 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.

As per the transaction structure, Equity Tranche PTC payouts are completely subordinated to PTC Series A1 payouts. Till August 26, 2023, the collections from the pool will be used for making promised interest payouts to PTC Series A1(a) and PTC Series A1(b) on a pari passu basis. After making the promised interest payouts to PTC Series A1(a) and A1(b), collections will be used to make the expected principal payouts to PTC Series A1(a) till its redemption followed by the expected principle payout to PTC Series A1(b). The entire principal repayment to PTC Series A1(a) and PTC Series A1(b) is promised on the scheduled maturity date of respective tranches. After August 27, 2023 till the final maturity date, the collections from the pool will be used for making promised interest payouts to PTC Series A1(a) and PTC Series A1(b) on a pari passu basis. After making the promised interest payouts, collections will be utilised for redemption of PTC Series A1(a) and A1(b) on pari passu basis. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on a monthly basis.

All prepayment amounts would be passed on to PTC Series A1(a) till August 26, 2023. From August 26, 2023, the prepayment amounts would be passed on to PTC Series A1(a) and PTC Series A1(b) will be pari passu basis of the respective amounts outstanding till complete redemption.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that have moderate seasoning with a weighted average seasoning of ~7 months and moderate pre-securitisation amortisation of ~21% as on pool cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top three state and the top five districts constituting ~85% and ~45%, respectively, of the pool principal.

Nonetheless, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

**Past rated pools performance:** ICRA has rated five standalone PTC transactions of NFL till date. The live pools which have completed at least one payout has shown high cumulative collection efficiency upwards of 99% (including advances) and low delinquencies with a loss-cum-0+ dpd in the range of 0.3%- 1.1% with nil CC utilisation as of the April 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 monthly to the PTC Series A1(a) and PTC Series A1(b) on pari passu basis while the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC investors. The available cash collateral would meet promised interest payouts for six months for senior PTCs.

## 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

Namra Finance Limited (NFL), a wholly-owned subsidiary of Arman Financial Services Ltd (AFSL), manages the microfinance business of the Arman Group. NFL is registered with the Reserve Bank of India (RBI) as a non-banking financial company - microfinance institution (NBFC-MFI). NFL's operations are spread across central and western India in Gujarat, Madhya Pradesh, Uttar Pradesh, Uttarakhand, Maharashtra, Rajasthan and Haryana. Lending is done with a ticket size of up to Rs. 35,000 through cashless transfers into the borrower's bank account. NFL lends to women borrowers through joint liability groups (JLGs). As of December 2021, the Group's microfinance operations had 211 branches spread over 99 districts in seven states. The company had 3.6 lakh+ active customers and has served 8 lakh+ customers over the years.

## Key financial indicators

Particulars	FY2020 (Audited)	FY2021 (Audited)	9M FY2022 (Provisional)
Total income	148.4	134.0	117.1
Profit after tax	25.2	4.9	8.7
Assets under management	621.1	642.4	855.7
Gross NPA%	0.93%	4.63%	3.8%
Net NPA%	0.01%	2.98%	0.8%

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

Sr No	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
					May 11, 2022	April 04, 2022			
1	Northern Arc 2022 MFI Albany	PTC Series A1(a)	16.27	16.27	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-	-
		PTC Series A1(b)	0.57	0.57	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1(a)	Moderately Complex
PTC Series A1(b)	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
Northern Arc 2022 MFI Albany	PTC Series A1(a)	March 2022	10.50%	November 25, 2023	16.27	[ICRA]A(SO)
	PTC Series A1(b)	March 2022	14.00%	November 26, 2023	0.57	[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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## 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](http://www.icra.in)

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