

May 11, 2022

## Namra Finance Limited: Rating confirmed as final for PTCs backed by microfinance loan receivables issued by Good 03 2022

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
GOOD 03 2022	PTC Series A1	29.48	[ICRA]A+(SO); provisional rating confirmed as final
	PTC Series A2	1.00	[ICRA]A-(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure-1

### Rationale

In March 2022, ICRA had assigned a Provisional [ICRA]A+(SO) rating to PTC Series A1 and Provisional [ICRA]A-(SO) rating to PTC Series A2 issued by Good 03 2022. The pass-through certificates (PTCs) are backed by a pool of Rs. 39.96-crore microfinance loan receivables (underlying pool principal of Rs. 32.76 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 rating has now been confirmed as final.

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

Parameter	GOOD 03 2022
Months post securitisation	1
Pool amortisation	4.38%
PTC Series A1 amortisation	4.87%
PTC Series A2 amortisation	0.00%
Cumulative collection efficiency (including advance collections)	99.53%
Loss-cum-0+ dpd	0.48%
Loss cum 30+ dpd	0.00%
Cumulative Prepayment rate	0.09%
Cumulative cash collateral (CC) utilisation	0.00%

### Key rating drivers

#### Credit strengths

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

#### Credit challenges

- Geographically concentrated pool at state level with top three states accounting for 91%
- 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 also be exposed to political and communal risks
- Pool performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic

## Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 10.00% of the pool principal (includes principal payable to PTC Series A2). After PTC Series A1 has been fully paid, subordination of 6.94% of the pool principal will be available for PTC Series A2. Further credit support is available in the form of an EIS of 14.42% for PTC Series A1 and 13.81% for PTC Series A2. A CC of 10.00% 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, PTC Series A2 payouts are completely subordinated to PTC Series A1. 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, followed by the expected interest payout to PTC Series A2. The entire principal repayment to PTC Series A1 is promised on the scheduled maturity date. Post the maturity of PTC Series A1, interest payouts will be promised to PTC Series A2 and all excess cash flows, after meeting the promised interest PTC Series A2 payouts, will be passed on for the expected PTC Series A2 principal payout. The entire principal repayment to PTC Series A2 is promised on the scheduled maturity date. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on a monthly basis.

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 ~5 months and moderate pre-securitisation amortisation of ~14% as on pool cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top three states and the top five districts constituting ~91% and ~32%, 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 4.5-5.5% 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 holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. After PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and 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 the PTC investors. The available CC would meet the promised interest payouts for 10 months for PTC Series A1.

## 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 ratings 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 ratings 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	March 22, 2022	-	-
1.	GOOD 03 2022	PTC Series A1	29.48	29.48	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-
		PTC Series A2	1.00	1.00	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)		

### Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	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
GOOD 03 2022	PTC Series A1	March 2022	9.80%	November 2023	29.48	[ICRA]A+(SO)
	PTC Series A2	March 2022	13.00%	November 2023	1.00	[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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