

May 23, 2022

Muthoot Microfin Limited: Ratings upgraded/reaffirmed for PTCs issued under microloan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount after Apr-22 Payout (Rs. crore)	Rating Action
Northern Arc 2021 MFI Sahaana	PTC Series A1	51.29	NA	7.06	[ICRA]A(SO); Reaffirmed
CredAvenue Mcfarland 03 2021	PTC Series A1	51.00	NA	3.43	[ICRA]AAA(SO); Upgraded from [ICRA]A(SO)
	PTC Series A2	1.13	NA	1.13	[ICRA]AA+(SO); Upgraded from [ICRA]A-(SO)

*Instrument details are provided in Annexure-1

Rationale

ICRA has upgraded/reaffirmed the ratings for the pass-through certificates (PTCs) issued under two microloan securitisation transactions backed by pools originated by Muthoot Microfin Limited (MML) as tabulated above. The ratings upgrade factors in the high amortisation in the transactions, which has led to the build-up of the credit enhancement cover over the future PTC payouts. The breakeven collection efficiency is also low compared to the actual collection levels observed in the pools.

A summary of the performance of the pools till the Mar-22 collection month (Apr-22 payout) has been tabulated below.

Pool performance summary

Parameter	Northern Arc 2021 MFI Sahaana	CredAvenue Mcfarland 03 2021
Months post securitisation	13	13
Pool amortisation	69.88%	82.89%
PTC Series A1 amortisation	86.23%	93.26%
PTC Series A2 amortisation	-	0.00%
Cumulative collection efficiency ¹	98.42%	104.21%
Loss-cum-0+ dpd ² (% of initial pool)	18.44%	10.36%
Loss-cum-90+ dpd ³ (% of initial pool)	6.39%	3.71%
Cumulative cash collateral utilisation	0.00%	0.00%
Cumulative prepayment rate (% of initial pool)	13.15%	13.57%
Cash collateral (CC; % of balance pool)	33.20%	46.74%
Principal subordination (% of balance pool) – PTC A1	57.95%	64.58%
Principal subordination (% of balance pool) – PTC A2	--	52.90%

¹ (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

² Inclusive of Unbilled and Overdue Principal portion of delinquent contracts, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of Delinquent contract overdue by more than 90 days, as a % of Initial Pool Principal

Key rating drivers

Credit strengths

- High amortisation of PTCs resulting in build-up of credit enhancement cover available for the balance PTC payouts
- Healthy collections observed in the pools

Credit challenges

- Performance of pools would remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile; further, pool performance would also be exposed to political and communal risks.
- Performance of pools will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic pandemic.

Description of key rating drivers highlighted above

The performance of the pools has been moderate with a cumulative collection efficiency of more than 98% as on April 2022 payout. There has been no instance of CC utilisation owing to moderate collections in the pools as well as the entire principal on the PTCs being promised on the pool maturity date. The delinquencies in the harder bucket were low prior to the second wave of the pandemic with the loss-cum-90+ days past due (dpd) below 1% till the September 2021 payout. There has been an increase in delinquencies post the second and third wave of the pandemic with loss cum 90+ dpd in the range of 3.5% to 7.0%. The pools are substantially amortised by over 70%, which has resulted in the build-up of the credit enhancement cover over the balance pool. Overall, the credit enhancement available for meeting the balance payouts to the investor is sufficient to upgrade/reaffirm the rating for the PTCs. ICRA will continue to monitor the performance of the transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations. Also, the performance of the pools would remain exposed to any fresh disruptions caused by the pandemic. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

Performance of past rated pools: ICRA has rated six transactions originated by MML which are live. The live pools have performed moderately with a cumulative collection efficiency upwards of 95% and loss-cum-90+ dpd sub 7.0% with nil CC utilisation as of the April 2022 payout.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance 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 past performance of the originator's portfolio and the rated pools, as well as the performance and 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 the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pools are as given in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Northern Arc 2021 MFI Sahaana	5.5% - 6.5%	6% - 9% p.a.
2	CredAvenue Mcfarland 03 2021	3.0% - 4.0%	6% - 9% p.a.

Liquidity position: Superior for PTC Series A1 for CredAvenue Mcfarland 03 2021 and Strong for other PTCs

As per the transaction structures, 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. For the CredAvenue Mcfarland 03 2021 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 cash collateral available covers the future PTC Series A1 payouts for CredAvenue Mcfarland 03 2021 transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the payouts to PTC Series A2 for CredAvenue Mcfarland 03 2021 transaction and PTC Series A1 for Northern Arc 2021 MFI Sahaana transaction.

Rating sensitivities

Positive factors: Not Applicable for PTC Series A1 for CredAvenue Mcfarland 03 2021. For PTC Series A2 for CredAvenue Mcfarland 03 2021 and PTC Series a1 for Northern Arc 2021 MFI Sahaana ratings may be upgraded if the cash collateral covers the entire balance PTC payouts

Negative factors: Given the short balance tenure of PTCs, the ratings are unlikely to get downgraded

Analytical approach

The rating action is based on the performance of the pools till March 2022 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

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

About the company

Muthoot Microfin Limited (MML) is a part of the Muthoot Pappachan Group. The company entered the microfinance business in 2010 as a division of Muthoot Fincorp Limited. In December 2011, the Group had acquired a Mumbai-based non-banking financial company (NBFC), Pancharatna Securities Ltd, and renamed it MML. In March 2015, MML received an NBFC-MFI licence from the Reserve Bank of India. As of Mar-22, Muthoot Fincorp Limited holds ~54% stake in the company. The company has grown its presence PAN India and is presently operating across 15 states. As on Mar-22, the company had 905 branches (increased from 755 branches as on Mar-21) across 15 states. As of Mar-22, the company had a portfolio size of about Rs. 6,238 crore with a borrower base of 27.25 lakh. Most of the portfolio is concentrated in the states of Kerala, Tamil Nadu and Karnataka.

Key financial indicators (audited)

MML	FY2019	FY2020	FY2021
Total Income	750.4	859.4	696.3
Profit after Tax	201.2	18.2	7.1
Assets under Management	4,168	4,707	4,950.4
Gross Non-performing Assets (NPA)%	2.0%	5.8%	8.1%
Net NPA%	1.2%	4.1%	1.5%

Source: Company data, ICRA research; Amount 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	Initial 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-23-2022	May-28-2021	Mar-02-2021	-	
1	Northern Arc 2021 MFI Sahaana	PTC Series A1	51.29	7.06	[ICRA]A(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	

Sr. no.	Trust name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial 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-23-2022	Jun-24-2021	Mar-15-2021	-	
2	CredAvenue Mcfarland 03 2021	PTC Series A1	51.00	3.43	[ICRA]AAA(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	
		PTC Series A2	1.13	1.13	[ICRA]AA+(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)		

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Northern Arc 2021 MFI Sahaana	PTC Series A1	Moderately Complex
CredAvenue Mcfarland 03 2021	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

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance	Coupon Rate (p.a.p.m.)	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Northern Arc 2021 MFI Sahaana	PTC Series A1	February 2021	9.00%	January 2023	7.06	[ICRA]A(SO)
CredAvenue Mcfarland 03 2021	PTC Series A1	March 2021	8.75%	January 2023	3.43	[ICRA]AAA(SO)
	PTC Series A2	March 2021	12.00%	January 2023	1.13	[ICRA]AA+(SO)

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

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

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Sushant Vanmali

+91 22 6114 3436

sushant.vanmali@icraindia.com

Advait Athavale

+91 22 6114 3434

advait.athavale@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@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



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.