

June 03, 2022

Muthoot Microfin Limited: Provisional [ICRA]A+(SO) assigned to PTC Series A1 backed by microfinance loan receivables issued by Gamora 05 2022

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Gamora 05 2022	PTC Series A1	76.30	Provisional [ICRA]A+(SO); Assigned

*Instrument details are provided in Annexure-1

Rating in the absence of the 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 Muthoot Microfin Limited (MML). The PTCs are backed by a pool of Rs. 99.71 crore microfinance loan receivables (underlying pool principal of Rs. 84.77 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement available in the form of (i) a cash collateral (CC) of 10.00% of the pool principal to be provided by the originator, (ii) over-collateralisation of 10.00% of the pool principal for PTC Series A1, and (iii) subordination of the entire excess interest spread (EIS) in the structure, as well as the integrity of the legal structure. The rating 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 credit enhancement in the form of EIS, overcollateralisation and CC
- No overdue contracts in the pool as on the cut-off date

Credit challenges

- High geographical concentration with top three states contributing to around 83% of the pool principal
- Pool performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic
- Performance of 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 performance would also 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 10.00% of the pool principal. Further credit support is available in the form of an EIS of 11.20% and a CC of 10.00% of the initial pool principal (i.e. Rs. 8.48crore) to be 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 entire 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 amortized) 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 cash collateral to meet the shortfall.

There are no overdues in the pool as on the cut-off date. The pre-securitisation amortisation is moderate at ~19% as on the cut-off date. The pool has high geographical concentration with the top three states contributing ~83% of the pool principal amount. At the district level, the top 5 districts account for ~37% 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 Covid-19 pandemic

Past rated pools performance: ICRA had rated nine microfinance loan receivables PTC transactions originated by MML. The performance of the six live pools has been robust with cumulative collection efficiency above 98% and nil cash collateral utilisation as on Apr-22 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 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 PTC investors. The cash collateral is sufficient to meet the promised interest payouts to PTC holders for a period of eighteen 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 analysis of the performance of MML’s portfolio till March 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
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 final upon execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. CA certificate for KYC due diligence
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 ratings, the provisional rating will be withdrawn, in accordance with ICRA’s Policy on Provisional Ratings available at www.icra.in.

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

MML	FY2020 (A)	FY2021 (A)	FY2022 (P)*
Total Income	859.4	696.3	842.9
Profit after Tax	18.2	7.1	45.8
Assets under Management	4,707.0	4,950.4	6,233.7
Gross Non-performing Assets (NPA)%	5.8%	8.1%	6.3%
Net NPA%	4.1%	1.5%	1.6%

Source: Company data, ICRA Research; Amount in Rs. Crore

*Provisional data for FY22

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
					June 03, 2022	-	-	-
1	Gamora 05 2022	PTC Series A1	76.30	76.30	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

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Gamora 05 2022	PTC Series A1	May 2022	9.25%	February 2024	76.30	Provisional [ICRA]A+(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

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About ICRA Limited:

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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.

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