

June 20, 2022

Akara Capital Advisors Private Limited: Provisional rating finalised and upgraded for PTCs backed by personal loan receivables issued by Jessica 02 2022

Summary of rating action

Trust name	Instrument*	Initial amount (Rs. crore)	Amount after previous rating exercise (Rs. crore)	Amount after May-22 payout (Rs. crore)	Rating action
Jessica 02 2022	PTC Series A1	9.74	NA	5.49	Provisional rating of [ICRA]BBB-(SO) confirmed as final and upgraded to [ICRA]BBB+(SO)

*Instrument details are provided in Annexure-1

Rationale

In March 2022, ICRA had assigned a Provisional [ICRA]BBB-(SO) rating to PTC Series A1, issued under a securitisation transaction backed by personal loan receivables originated by Akara Capital Advisors Private Limited {Akara; rated [ICRA]BBB-(Stable)/[ICRA]A3}. The pass-through certificates (PTCs) are backed by a pool of Rs. 11.95 crore personal loan receivables (underlying pool principal of Rs.10.47 crore). 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.

Subsequently ICRA has also upgraded the rating to [ICRA]BBB+(SO) for PTC Series A1. The ratings upgrade for the transactions is on account of the healthy pool collections, moderate pool amortisation till the May 2022 payouts which has resultant in build-up of the credit enhancement in the transaction. The breakeven collection efficiency is also below the actual collection levels observed in the pool.

Pool Performance summary

A summary of the performance of the pools till the May 2022 payout month has been tabulated below.

Parameter	Jessica 02 2022
Months post securitisation	2
Pool amortisation	47.61%
PTC Amortisation - PTC Series A1	51.19%
Cumulative collection efficiency (%) ¹	93.68%
Breakeven collection efficiency ² (%)	61.92%
Loss-cum-0+ (% of initial pool principal) ³	10.56%
Loss-cum-30+ (% of initial pool principal) ⁴	4.32%
Cumulative CC utilisation (% of initial CC)	--
CC available (as % of balance pool principal)	19.09%

¹ Cumulative collections till date / cumulative billings till date plus opening overdues

² It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Cash collateral available – Trapped EIS)/ Balance pool cash flows

³ POS on contracts aged 0+ dpd + overdues / Initial POS on the pool

⁴ POS on contracts aged 30+ dpd + overdues / Initial POS on the pool

Parameter	Jessica 02 2022
Subordination for A1 (as % of balance pool)	13.36%
EIS over balance tenure for A1 (as % of balance pool)	10.82%
Cumulative prepayment rate ⁵	11.18%

Key rating drivers

Credit strengths

- Build-up of the credit enhancement in the form of excess interest spread (EIS), subordination and cash collateral (CC) following high amortization of the pool
- Low obligor concentration of the pool

Credit challenges

- Limited track record of operations of the servicer
- The pool has high geographical concentration with top 3 states accounting for around 55% of the pool
- Higher share of contracts with lower ticket size (<Rs 40,000) and higher IRR (>2.0% pm)
- Pool performance will remain exposed to any fresh disruptions caused by Covid-19 pandemic

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. 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 (to the extent of pool principal billed). Any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. The entire principal repayment to PTC Series A1 is promised on the scheduled maturity date. All excess collections in the pool, after meeting the payouts, will flow back to the Originator on a monthly basis. The principal amount collected upon the pre-termination of a contract will be paid to PTC Series A1. 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. Additionally, the EIS available in the structure provides credit support. A CC of 7.0% of the initial pool principal provided by Akara acts as further credit support 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.

The performance of the pools has been good with a cumulative collection efficiency of more than 93% as of the May 2022 payout. There has been no instance of CC utilisation owing to healthy collections in the pools as well as the entire principal on the PTCs being promised on the pool's maturity date. The pools are substantially amortised by over 47%, which has resulted in the build-up of the credit enhancement cover over the balance pool. The breakeven collection efficiency (BECE) for the PTCs has fallen below 62%, which is much lower than the observed monthly collections. Overall, the credit enhancement available for meeting the balance payouts to the investor is sufficient to upgrade 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. The pool's performance will remain exposed to any fresh disruptions caused by the pandemic.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The

⁵ Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal

mean and the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of Akara’s loan portfolio. Given the short track record of Akara in the personal loan business, ICRA has also considered the credit quality experience of other more established players and ICRA’s expectation of the credit quality of personal loans. Akara’s target borrower segment could be financially vulnerable as well as subject to various seasonality factors. The inherent riskiness in Akara’s portfolio also remains high due to the unsecured nature of the loans.

The resulting collections from the pool – after incorporating the impact of losses and prepayments as above – are accounted for in ICRA’s cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA’s internal benchmarks for the target rating.

For the current pool, after considering the above-mentioned factors regarding the asset class and after adjusting for key features like seasoning, overdues, ticket size, interest rate, bureau score, and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool’s tenure at 9.25% to 10.25%, with certain variability around it. The prepayment rate in the pool is estimated at 8.0% to 12.0% p.a.

Liquidity position: Adequate

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 CE are expected to be adequate to meet the promised payouts to the PTC Series A1 investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the CE cover for the remaining payouts.

Negative factors – Pressure on the rating could emerge on the sustained weak collection performance (monthly collection efficiency <90%) of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of the pools till April 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

Akara is a Delhi-based non-deposit taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI) since 2016. It started operations in 2017. The company primarily provides unsecured short-term personal loans to salaried individuals through web and mobile platforms. It was started by Mr. Tushar Aggarwal, Ms. Shruti Aggarwal and Mr. Parikshit Chitalkar, who have several years of experience in the financial services industry.

Akara is currently owned by Morus Technologies, a Singapore-based neobanking start-up backed by investors like Tencent, Blowfish Ventures, Divine Blessings, Altara Ventures, Uncorrelated Ventures, etc. Akara is a 100% subsidiary of Morus Technologies (holding company incorporated in Singapore). The Group has another 100% subsidiary, EQX Analytics Private

Limited (EQXAPL), which houses the technology platform known as StashFin and sources leads. The technology platform is used by Akara and other co-lenders for lending to customers.

Akara has a pan-India presence and ~26% of its assets under management (AUM) comprised small-ticket size loans (Rs. 10,000 and >Rs. 5 lakh) as on December 31, 2021. Total disbursements stood at Rs. 163 crore in FY2021 compared to Rs. 244 crore in FY2020. In 9M FY2022, disbursements stood at Rs. 490 crore. On a standalone basis, Akara reported a profit after tax (PAT) of Rs. 1.8 crore in FY2021 on a total managed asset base of Rs. 157.7 crore as on March 31, 2021 compared to a PAT of Rs. 0.8 crore in FY2020 on a total managed asset base of Rs. 168.6 crore as on March 31, 2020. In 9M FY2022, the company reported a PAT of Rs. 3.7 crore on a total managed asset base of Rs. 451.5 crore (based on provisional financials). As on December 31, 2021, the company's standalone net worth was Rs. 188.8 crore with a gearing of 1.1 times supported by an equity infusion of Rs. 62 crore by the parent in Q3 FY2022.

Key financial indicators

Akara (Standalone)	FY2020 (Audited)	FY2021 (Audited)	9M FY2022 (Provisional)
Net worth	40.1	76.7	188.8
Profit after tax	0.8	1.8	3.7
Assets under management	159.8	113.7	392.3
Gross NPA%**	0.8%	0.0%	0.0%
Net NPA%	0.7%	0.0%	0.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; **Recognised on 180+ days past due (dpd) basis

Amount 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
					June 20, 2022	March 22, 2022	-	-
1	Jessica 02 2022	PTC Series A1	9.74	5.49	[ICRA]BBB+(SO)	Provisional [ICRA]BBB-(SO)	-	-

Complexity level of the rated instruments

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
Jessica 02 2022	PTC Series A1	March 2022	13.00%	April 2025	5.49	[ICRA]BBB+(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:

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

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