

August 18, 2022

Muthoot Microfin Limited: Rating upgraded for PTCs issued under microloan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Sarayu June 2021	PTC Series A1	55.93	NA	5.31	[ICRA]AAA(SO); Upgraded from [ICRA]A+(SO)

*Instrument details are provided in Annexure I

Rationale

ICRA has upgraded the rating for the pass-through certificate (PTC) issued under the securitisation transaction Sarayu June 2021 backed by pool of microfinance loan receivables originated by Muthoot Microfin Limited (MML). The rating upgrade is on account of the high amortisation in the pool, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts in the transactions. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool.

A summary of the performance of the pools till the July 2022 collection month (August 2022 payout) has been tabulated below.

Pool performance summary (till August 2022 payout month)

Particulars	Sarayu June 2021
Months post securitisation	14
Pool amortisation	72.92%
PTC Series A1 amortisation	90.51%
Cumulative collection efficiency ¹	99.93%
Loss-cum-30+ dpd ² (% of initial pool)	1.13%
Loss-cum-90+ dpd ³ (% of initial pool)	0.80%
Cumulative cash collateral utilisation	0.00%
Cumulative prepayment rate	16.42%
Breakeven collection efficiency ⁴ for PTC Series A1	0.00%
Cash collateral (% of balance pool)	44.31%
Principal subordination (% of balance pool) for PTC Series A1	67.77%
Excess interest spread (EIS) ⁵ (% of balance pool) for PTC Series A1	9.30%

Key rating drivers and their description

Credit strengths

- Significant amortisation of pool resulting in cash collateral fully covering the future PTC payouts
- Healthy collection efficiency exhibited by the pool

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 overdue by more than 30 days, as a % of Initial Pool Principal

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

⁴ (Balance Cash flows payable to investor – CC available)/ Balance Pool Cash flows

⁵ (Pool Cash flows – Cash flows to PTC investors – Originator's residual share)/ Pool Principal outstanding

Credit challenges

- Not Applicable

Description of key rating drivers highlighted above

The performance of the pool has been healthy with cumulative collection efficiency of 99.93% as of the August 2022 payout month. The loss-cum-30+ dpd stood at 1.13% for the pool as of the August 2022 payout month. The peak loss-cum-30+ dpd seen in the pool has also been low at 2.00%. There has been no CC utilisation in the transaction till date. Healthy collections and high pool amortisation of ~82% have led to high build-up of the CE in the pool such that the entire future PTC payouts are covered by the cash collateral and hence the breakeven collection efficiency is nil for PTC Series A1. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the ratings to the current levels in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

Moreover, 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.

Performance of past rated pools: ICRA has rated 14 microfinance loan receivables PTC transactions originated by MML. The performance of the live pools, which have completed at least one payout, has been robust with a cumulative collection efficiency of more than 96% and nil CC utilisation as of the July 2022 payout.

Key rating assumptions

ICRA's cash flow analysis of asset-backed securitisation (ABS) transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for loss and the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, and also the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

Liquidity position: Superior

The liquidity of the rated transaction is expected to be superior as the CC covers the future payouts entirely.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – Rating is unlikely to be downgraded for the transaction as the CC is fully covering the future PTC payouts.

Analytical approach

The rating action is based on the performance of the pool till July 2022 (collection month), the present delinquency levels and the CE available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable

Consolidation/Standalone	Not Applicable
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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-microfinance institution (NBFC-MFI) licence from the Reserve Bank of India. As of March 2022, Muthoot Fincorp Limited had a ~54% stake in the company.

MML has grown its presence across India and is currently operating in 15 states. As of March 2022, it had 905 branches (up from 755 branches as of March 2021) and a portfolio size of about Rs. 6,234 crore with a borrower base of 27.25 lakh. Most of the portfolio is concentrated in Kerala, Tamil Nadu and Karnataka.

Key financial indicators (audited)

MML	FY2020 (A)	FY2021 (A)	FY2022 (P)*
Total income	866.7	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, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore

*Provisional data for FY2022

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
						Sep 21, 2021	Jul 02, 2021		
1	Sarayu June 2021	PTC Series A1	55.93	5.31	[ICRA]AAA(SO) Aug 18, 2022	[ICRA]A+(SO) Sep 21, 2021	Provisional [ICRA]A+(SO) Jul 02, 2021	-	-

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 I: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate	Final Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sarayu June 2021	PTC Series A1	Jul-21	9.15%	Apr-23	5.31	[ICRA]AAA(SO)

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

Source: Company

Annexure II: 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

Advait Athavale

91 22 6114 3433

advait.athavale@icraindia.com

Alwin Thankachan

91 22 6114 3411

alwin.thankachan@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

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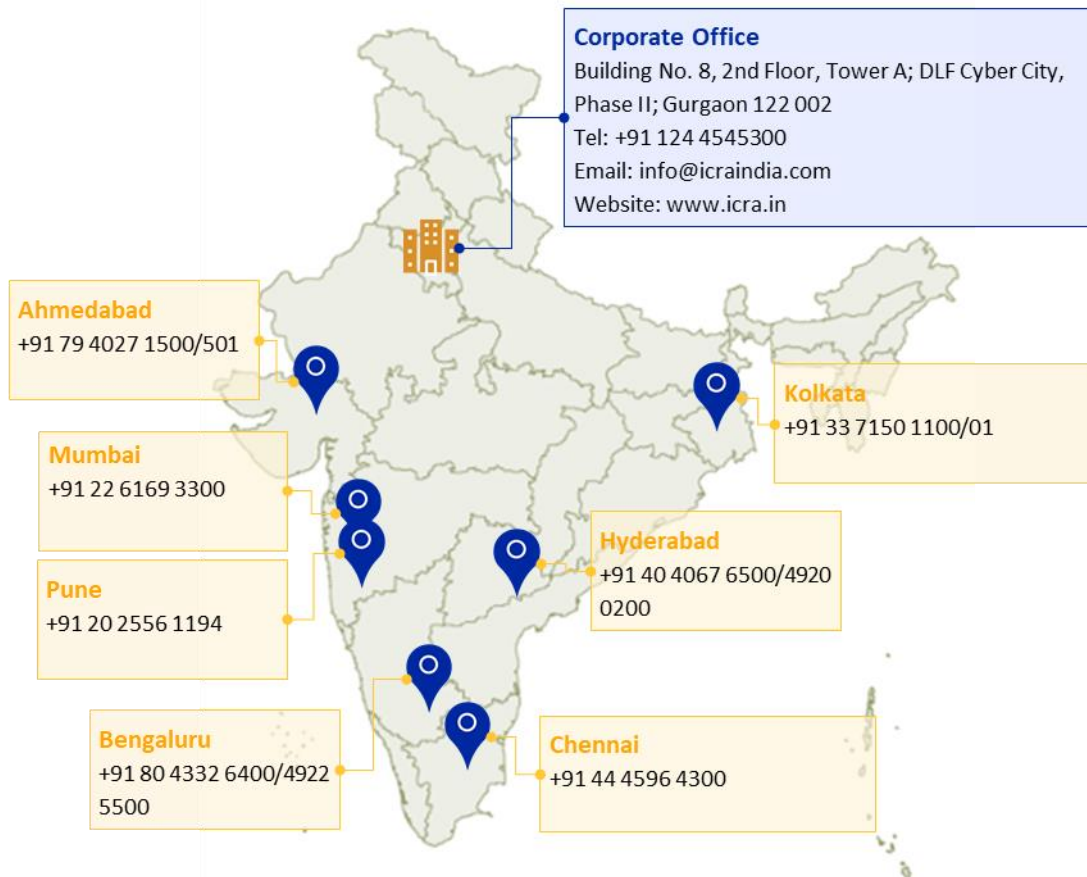
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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