

October 13, 2022

Muthoot Microfin Limited: Rating confirmed as final for PTCs backed by micro loan receivables issued by Ultron 08 2022

Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|----------------|---------------|----------------------------------|---|
| Ultron 08 2022 | PTC Series A1 | 75.70 | [ICRA]A+(SO); provisional rating confirmed as final |

*Instrument details are provided in Annexure-I

Rationale

In August 2022, ICRA had assigned a Provisional [ICRA]A+(SO) rating to PTC Series A1 issued by Ultron 08 2022. The pass-through certificates (PTCs) are backed by a pool of Rs. 98.63-crore micro loan receivables (underlying pool principal of Rs. 84.11 crore) originated by Muthoot Microfin Limited (MML). 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.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of Excess Interest Spread (EIS), Overcollateralization and Cash Collateral
- No overdue contracts in the pool as on the cut-off date

Credit challenges

- Geographically concentrated pool at state level with the top three states having ~97% share of pool
- 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 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 over-collateralisation (i.e. subordination) of 10.00% of the pool principal. Further credit support is available in the form of an EIS of 10.10% and a CC of 12.50% of the initial pool principal (i.e. Rs. 10.5 crore) to be provided by MML.

As per the transaction structure, the promised cashflow schedule for PTC Series A1 on a monthly basis will comprise only interest (at the pre-determined yield) payment and principal payment on the final payout date. During the tenure of 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 (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 revised accordingly.

There are no overdues in the pool as on the cut-off date. The pre-securitisation amortisation is moderate at 19.22% as on the cut-off date. The pool has high geographical concentration with the top 3 states contributing ~97% to the pool principal amount. At the district level, the top 5 districts account for ~31% of the initial pool principal amount. The performance of the

pool would be exposed to political and communal risks and natural calamities that may impact the income-generating capability of the borrower. Also, it would remain exposed to any fresh disruptions that may arise due to the pandemic.

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 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 September 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 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 for PTC Series A1

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the entire 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.

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 of contracts (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 actions are 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 | 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 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

| MML | FY2020 (A) | FY2021 (A) | FY2022 (A) |
|------------------------------------|------------|------------|------------|
| Total Income | 859.4 | 696.3 | 842.9 |
| Profit after Tax | 18.2 | 7.1 | 47.4 |
| 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 calculations; Amounts in Rs. Crore; * - Provisional numbers

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 |
| | | | | | October 13, 2022 | August 17, 2022 | | | |
| 1 | Ultron 08 2022 | PTC Series A1 | 75.70 | 75.70 | [ICRA]A+(SO) | 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-I: Instrument details

| Trust Name | Instrument | Date of Issuance / Sanction | Coupon Rate | Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|----------------|---------------|-----------------------------|-------------|----------------|--------------------------|----------------|
| Ultron 08 2022 | PTC Series A1 | August 2022 | 9.75% | June 2024 | 75.70 | [ICRA]A+(SO) |

* Scheduled PTC maturity date at transaction initiation; may change on account of prepayments

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

Alwin Thankachan

+91 22 6114 3411

alwin.thankachan@icraindia.com

Advait Athavale

+91 22 6114 3433

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:

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ICRA Limited



Registered Office

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

Tel: +91 11 23357940-45



Branches



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