

November 02, 2022

Akara Capital Advisors Private Limited: Provisional [ICRA]A-(SO) assigned to Senior Tranche PTC backed by personal loan receivables issued by SCORPIO TRUST 08 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
SCORPIO TRUST 08 2022	Senior Tranche PTC	17.64	Provisional [ICRA]A-(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
--	--

Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Akara Capital Advisors Private Limited {ACAPL; rated [ICRA]BBB (Stable)}. The PTCs are backed by a pool of Rs. 22.59-crore microfinance loan receivables (underlying pool principal of Rs. 20.51 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 6.00% of the pool principal to be provided by ACAPL (originator), (ii) principal subordination of 14.00% of the pool principal for Senior Tranche PTC (over-collateralisation of 10.00% and equity tranche of 4.00%) and (iii) excess interest spread (EIS) of 11.44% in the structure, as well as the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure, due diligence audit of the pool, review by ICRA of the documentation pertaining to the transaction, and the furnishing of a legal opinion on the transaction to ICRA by ACAPL.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, subordination and CC
- Low obligor concentration of the pool with top 10 obligors accounting for 1.15% of the initial pool
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- Improved asset quality indicators compared to high delinquencies seen in the past, though sustainability through economic cycles remains to be seen
- High geographical concentration with top 3 states accounting for around 45% of the initial pool
- Higher share of contracts in the initial pool with lower ticket size (<Rs. 30,000) and higher internal rate of return (IRR>2.5% p.m.)
- Exposed to inherent credit risk associated with unsecured nature of the asset class; performance of the pool could remain exposed to any macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

According to the transaction structure, the promised cash flow schedule for Senior Tranche PTC on a monthly basis will

comprise the interest (at the predetermined yield) on the senior live PTC tranche's principal on each payout date. The principal repayment to Senior Tranche PTC is promised on the final maturity date. During the tenure of Senior Tranche PTC, the collections from the pool, after making the promised interest payouts to Senior Tranche PTC, will be used to make the expected principal payouts to Senior Tranche PTC. All prepayment amounts would be passed on to Senior Tranche PTC (till the Senior Tranche PTC principal is not fully amortised) every month and its future payouts will be revised accordingly. The residual cash flows from the pool, after making the promised and expected payouts, would be used for the prepayment of the Senior Tranche PTC principal; no residual cash flow will be paid to the residual beneficiary. Hence, the actual tenure of the PTCs is expected to be shorter owing to such acceleration.

The first line of support for Senior Tranche PTC in the transaction is in the form of principal subordination of 14.00% of the pool principal (over-collateralisation of 10.00% and equity tranche of 4.00%). Further credit support is available in the form of an EIS of 11.44%. A CC of 6.00% of the initial pool principal, to be provided by ACAPL, would act as further CE 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.

There are no overdues in the pool as on the cut-off date. The pool has high geographical concentration at the state level with the top 3 states contributing ~45% to the initial pool principal amount. The pre-securitisation amortisation of the pool is high at ~35% as on the pool cut-off date. The share of loan contracts with an Equifax score of <750 is very low at 8.19% of the total pool. At the obligor level, the top 10 obligors account for only ~1% of the initial pool principal amount. The pool's performance would remain exposed to any macro-economic shocks/business disruptions.

Past rated pools: ICRA has previously rated one transaction backed by personal loan receivables originated by ACAPL. The pool has displayed healthy collections and there has been nil CC utilisation in the transaction as of the August 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 7.75-8.75% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 4.8-18.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the Senior Tranche PTC 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 comfortable to meet the promised payouts to the Senior Tranche PTC 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 ACAPL's portfolio till June 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

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

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 the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
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 the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

ACAPL 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. ACAPL is currently owned by Morus Technologies Pte Limited (MTPL), a Singapore-based neobanking startup backed by investors like Tencent Group, Fasanara Capital, Altara Ventures, Uncorrelated Ventures, etc. 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 ACAPL and other co-lenders for lending to customers.

Key financial indicators

ACAPL (standalone)	FY2021	FY2022	Q1 FY2023*
Total Income	20.5	48.9	28.0
Profit after tax	1.8	4.3	4.0
Total managed assets	132.2	636.4	631.6
Gross NPA%	0.00	0.00	0.00
Net NPA%	0.00	0.00	0.00

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Provisional

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
					November 02, 2022	-	-	-
1	SCORPIO TRUST 08 2022	Senior Tranche PTC	17.64	17.64	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Senior Tranche PTC	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instruments 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
SCORPIO TRUST 08 2022	Senior Tranche PTC	October 2022	10.00%	March 2025	17.64	Provisional [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

Samriddhi Chowdhary

+91 22 6114 3462

samriddhi.chowdhary@icraindia.com

Sohil Mehta

+91 22 6114 3449

sohil.mehta@icraindia.com

Palak Bhatt

+91 22 6114 3450

palak.bhatt@icraindia.com

Shruti Jain

+91 22 61143472

shruti.jain@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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



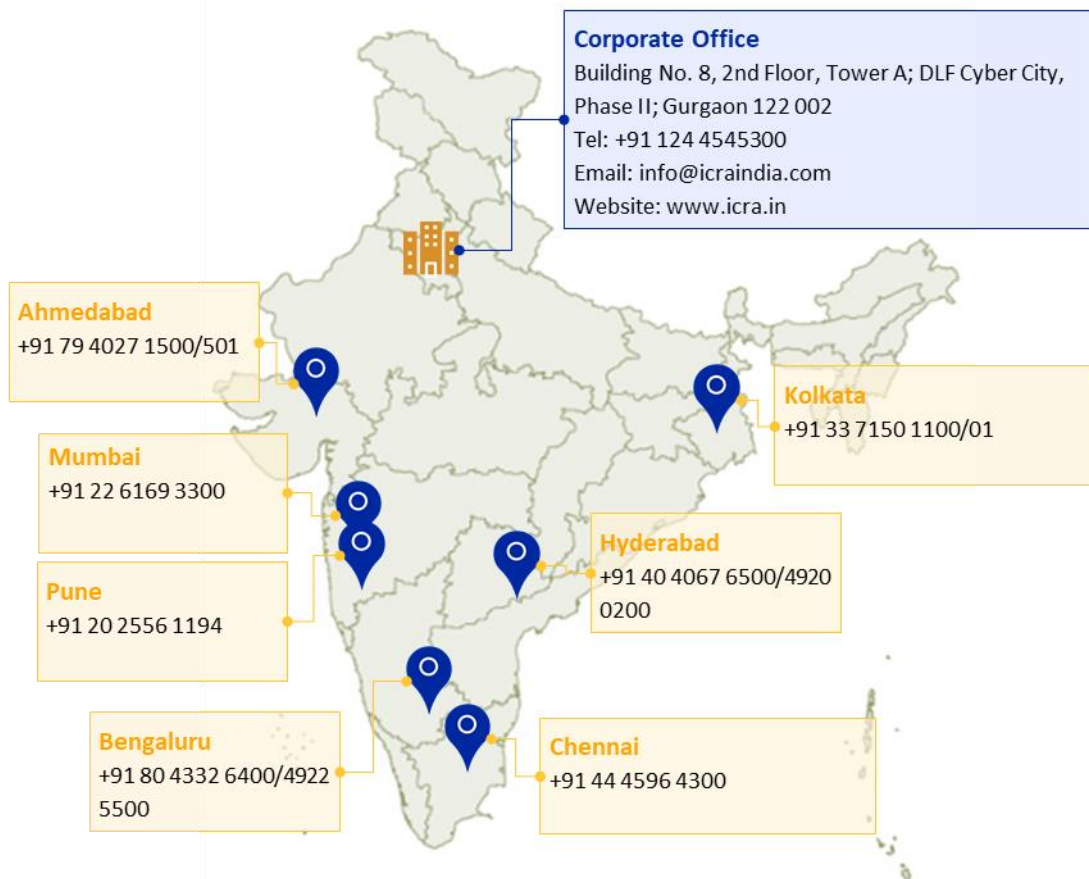
Registered Office

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.