

January 16, 2023

Akara Capital Advisors Private Limited: Provisional rating finalised for PTCs 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	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In November 2022, ICRA had assigned a Provisional [ICRA]A-(SO) rating to Senior Tranche PTC, 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. 23.44 crore personal loan receivables (underlying pool principal of Rs. 20.51 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.

Pool Performance summary

A summary of the pool performance till the December 2022 payout month has been tabulated below:

Parameter	SCORPIO TRUST 08 2022
Months post securitisation	2
Pool amortisation	24.82%
PTC amortisation – Senior Tranche	31.82%
Cumulative collection efficiency (%) ¹	95.08%
Loss-cum-0+ (% of initial pool principal) ²	5.42%
Loss-cum-30+ (% of initial pool principal) ³	2.21%
Cumulative CC utilisation (% of initial CC)	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), subordination and cash collateral (CC)
- Low obligor concentration of the pool with top 10 obligors share at 1.15% of the initial pool
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- Improved asset quality indicators from the high delinquencies seen in the past, though sustainability through economic cycles remains to be seen

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

² POS on contracts aged 0+ dpd + overdues / Initial POS on the pool

³ POS on contracts aged 30+ dpd + overdues / Initial POS on the pool

- The pool has high geographical concentration with contracts from top 3 states accounting for around 45% of the initial pool
- The initial pool has higher share of contracts with lower ticket size (<Rs 30,000) and higher IRR (>2.5% pm)
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; Performance of the pool could remain exposed to macro-economic shocks / business disruptions, if any

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, 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 were 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 macro-economic shocks / business disruptions, if any.

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 November 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 considering the past performance of the originator's portfolio and rated pools 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%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 4.8%-18.0% (with a mean of 12.0%) per annum.

Liquidity position:

Strong for Senior Tranche PTCs

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 credit enhancement are expected to be adequate to meet the promised payouts to 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 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 originator

ACAPL is a Delhi-based non-deposit taking 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 MTPL, a Singapore-based neobanking startup backed by investors like Tencent Group, Fasanara Capital, Altara Ventures, Uncorrelated Ventures, etc. ACAPL is a 100% subsidiary of MTPL (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 ACAPL and other co-lenders for lending to customers. On a standalone basis, ACAPL reported a profit after tax (PAT) of Rs. 4.3 crore in FY2022 on a total asset base of Rs. 636.4 crore compared with a PAT of Rs. 1.8 crore in FY2021 on a total asset base of Rs. 132.2 crore as on March 31, 2021. In H1 FY2023, the company reported a PAT of Rs. 11.1 crore on a total asset base of Rs. 806.5 crore (based on provisional financials). As on September 30, 2022, the company's standalone net worth was Rs. 328.9 crore with a gearing of 1.4 times. On a consolidated basis (ACAPL & EQXAPL), the Group reported a loss of Rs. 14.0 crore in FY2022 on a total asset base of Rs. 693.8 crore as on March 31, 2022 compared with a loss of Rs. 11.6 crore in FY2021 on a total asset base of Rs. 192.9 crore as on March 31, 2021. In H1 FY2023, the Group (on a consolidated basis) reported a PAT of Rs. 7.1 crore on a total asset base of Rs. 907.7 crore (based on provisional financials) as on September 30, 2022. As on September 30, 2022, the company's consolidated net worth stood at Rs. 324.8 crore with a gearing of 1.5 times.

Key financial indicators

Akara (Standalone)	FY2021 (Audited)	FY2022 (Audited)	H1 FY2023 (Provisional)
Net worth	76.7	278.8	328.9
Profit after tax	1.8	4.3	11.1
Total managed assets	132.2	636.4	806.5
Gross NPA%**	0.0%	0.0%	3.8%
Net NPA%	0.0%	0.0%	2.9%

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 FY2021	Date & Rating in FY2020	
					January 16, 2023			
1	SCORPIO TRUST 08 2022	Senior Tranche PTC	17.64	17.64	[ICRA]A-(SO)	November 02, 2022	-	-
					Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Senior Tranche PTC	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: [Click Here](#)

Annexure-1: 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	[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:

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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