

April 27, 2023

## Muthoot Microfin Limited: Rating upgraded for PTCs issued under microfinance loan 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
Peterson 01 2022	PTC Series A1	97.50	NA	6.86	[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 Peterson 01 2022 backed by pool of microfinance loan receivables originated by Muthoot Microfin Limited (MML). The rating upgrade is on account of the significant amortisation in the pool, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts in the transaction. 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 March 2023 collection month (April 2023 payout) has been tabulated below.

### Pool performance summary (till April 2023 payout month)

Particulars	Peterson 01 2022
Months post securitisation	15
Pool amortisation	82.84%
PTC Series A1 amortisation	92.97%
Cumulative collection efficiency <sup>1</sup>	99.87%
Loss-cum-30+ dpd <sup>2</sup> (% of initial pool)	2.15%
Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)	1.57%
Cumulative cash collateral utilisation	0.00%
Cumulative prepayment rate	16.71%
Breakeven collection efficiency <sup>4</sup> for PTC Series A1	Nil
Cash collateral (% of balance pool)	58.27%
Principal subordination (% of balance pool) for PTC Series A1	63.13%
Excess interest spread (EIS) <sup>5</sup> (% of balance pool) for PTC Series A1	4.98%

<sup>1</sup> (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

<sup>2</sup> Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 30 days, as a % of Initial Pool Principal

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

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

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

## 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.

### Credit challenges

- 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.
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any.

## Description of key rating drivers highlighted above

The performance of the pool has been healthy with cumulative collection efficiency of 99.9% as of the April 2023 payout month. The loss-cum-30+ dpd stood at 2.2% for the pool as of the April 2023 payout month. There has been no CC utilisation in the transaction till date. Healthy collections and significant pool amortisation of ~83% 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 rating to the current level 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 has been robust with a cumulative collection efficiency of more than 96% and nil CC utilisation as of the March 2023 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 March 2023 (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	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the originator

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 17 states. As of December 2022, it had 1,088 branches (up from 905 as of March 2022) and a portfolio size of about Rs. 8,192 crore with a borrower base of 32.28 lakh. Most of the portfolio is concentrated in Kerala, Tamil Nadu and Karnataka.

## Key financial indicators (audited)

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's calculations; Amount in Rs. Crore

**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 (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					April 27, 2023	April 29, 2022	February 11, 2022	-	
1	Peterson 01 2022	PTC Series A1	97.50	6.86	[ICRA]AAA(SO)	[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: [Click Here](#)

**Annexure I: Instrument details**

Trust Name	Instrument Name	Date of Issuance	Coupon Rate	Final Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Peterson 01 2022	PTC Series A1	Feb-22	9.50%	Oct-23	6.86	[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

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