

July 25, 2023^(Revised)

Protium Finance Limited: Provisional [ICRA]AA+(SO) assigned to PTCs backed by secured MSME loan (LAP) receivables issued by Turiya LAP - 230701

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Turiya LAP – 230701	Series A PTC	68.24	Provisional [ICRA]AA+(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of the pending actions/documents

No rating would have been assigned as it would not be meaningful

Rationale

ICRA has assigned a Provisional [ICRA]AA+(SO) rating to Series A PTC issued under a securitisation transaction originated by Protium Finance Limited. The pass-through certificates (PTCs) are backed by a pool of Rs. 130.28-crore secured micro, small and medium enterprise (MSME) loan against property (LAP) receivables (underlying pool principal of Rs. 71.84 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 8.00% of the pool principal to be provided by Protium, (ii) subordination (in the form of an equity tranche) of 5.00% of the pool principal for Series A PTCs, and (iii) the entire excess interest spread (EIS) of 65.05% of the pool principal 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 and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of CC, EIS and subordination
- No overdue contracts in the pool as on the cut-off date
- ~90% of the contracts in the pool are backed by residential properties as on the cut-off date
- ~87% of the contracts have a credit bureau score of more than 700 as on cut-off date

Credit challenges

- Moderate geographical concentration with top 3 states accounting for ~51% of the initial pool
- As the yield on Series A PTC is fixed and the pool yield is floating, linked to the originator's benchmark rate, the transaction is exposed to interest rate risk; thus, any adverse movement in the benchmark yield is likely to reduce the EIS available in the transaction
- Limited vintage as majority of the book building has happened in the last two years
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to Series A PTC at the predetermined interest rate on the principal outstanding. The principal repayment to Series A PTC is promised on the last payout date. During the tenure of Series A PTC, the collections from the pool, after making the promised interest payouts, will be used to make the expected principal payouts to Series A PTC. This principal payout is not promised and any shortfall in making the expected principal payment to Series A PTC would be carried forward to the subsequent payout. The surplus EIS available after meeting the promised and expected payouts to the PTCs will be used towards the accelerated redemption of Series A PTC. Also, in the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the same.

The first line of support for Series A PTC in the transaction is in the form of a subordination of 5.00% of the pool principal. Further credit support is available in the form of an EIS of 65.05% and a CC of 8.00% of the pool principal (i.e. Rs. 5.75 crore) to be provided by Protium.

The underlying loans follow a monthly payment schedule. There are no overdues in the pool as on the cut-off date and none of the loans in the pool have been delinquent in the past. The average pre-securitisation amortisation stood at ~8% as on the cut-off date. Further, ~87% of the contracts in the pool have a CIBIL score of more than 700. The pool has moderate geographical concentration with the top 3 states (Karnataka, Telangana and Gujarat) contributing ~51% to the initial pool principal amount. The interest rate for the contracts in the pool is floating while the PTC yield is fixed, thereby creating an interest rate risk in the structure. The pool's performance would remain exposed to any macro-economic shocks/business disruptions.

Past rated pools' performance: This is the first transaction backed by secured MSME loan (LAP) receivables to be rated by ICRA.

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 balance 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 past performance of the originator's portfolio as well as the performance and 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 5.25-6.25%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-20.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the 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 Series A PTC investors.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels and lower CE utilisation levels, 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 CE utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the analysis of the performance of Protium’s portfolio till March 2023, 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	Not Applicable

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

Protium Finance Limited (Protium) is a systemically important non-deposit taking (ND-SI) non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). It was incorporated in 2019 as Growth Source Financial Technologies Private Limited and later as Growth Source Financial Technologies Limited and was rechristened Protium Finance Limited in June 2022. It provides secured and unsecured loans to small and medium enterprises (SME), micro, small and medium enterprises (MSME), educational institution and hospital funding, consumer loans and small financial institutional funding. The company’s assets under management (AUM) stood at Rs. 2,908 crore with a customer base of 3 lakh as of March 2023 against AUM of Rs. 1,415 crore with a customer base of 91,602 as of March 2022. Protium operates through a network of 85 branches spread across 16 states.

Key financial indicators (audited)

	FY2021 IGAAP	FY2022 IND AS	FY2023 IND AS
Total income	30.9	159.5	433.1
Profit after tax	0.4	14.0	63.1
Assets under management	321.2	1,415	2,908.1
Gross NPA	0.02%	0.16%	0.65%
Net NPA	0.01%	0.04%	0.33%

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

S. No	Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					July 25, 2023	-	-	-
1	Turiya LAP – 230701	Series A PTC	68.24	68.24	Provisional [ICRA]AA+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A 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 I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date**	Amount Rated (Rs. crore)	Current Rating
Turiya LAP - 230701	Series A PTC	July 2023	8.55% p.a.p.m	November 2035	68.24	Provisional [ICRA]AA+(SO)

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

Corrigendum:

Document dated July 25, 2023 has been corrected with revision as detailed below:

Coupon rate on Page 5 has been modified from 9.55% to 8.55% p.a.p.m.

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About ICRA Limited:

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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.

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