

July 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
Gamora 05 2022	PTC Series A1	76.30	NA	12.21	[ICRA]AA+(SO); Upgraded from [ICRA]A+(SO)

*Instrument details are provided in Annexure I

Rationale

ICRA has upgraded the rating for the pass-through certificates (PTCs) issued under the securitisation transaction, Gamora 05 2022, backed by a 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 pool till the May 2023 collection month (June 2023 payout) has been tabulated below.

Pool performance summary (till June 2023 payout month)

Particulars	Gamora 05 2022
Months post securitisation	13
Pool amortisation	74.74%
PTC Series A1 amortisation	84.00%
Cumulative collection efficiency ¹	99.88%
Loss-cum-30+ dpd ² (% of initial pool)	2.43%
Loss-cum-90+ dpd ³ (% of initial pool)	1.78%
Cumulative cash collateral utilisation	0.00%
Cumulative prepayment rate	18.32%
Breakeven collection efficiency ⁴ for PTC Series A1	17.14%
Cash collateral (CC) (% of balance pool)	39.58%
Principal subordination (% of balance pool) for PTC Series A1	42.99%
Excess interest spread (EIS) ⁵ (% of balance pool) for PTC Series A1	5.90%

Key rating drivers and their description

Credit strengths

- Significant amortisation of pool resulting in build-up of credit enhancement cover available for the balance PTC payouts.

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

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

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

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

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

- Healthy collections observed in 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 June 2023 payout month. The loss-cum-30+ days past due (dpd) has been low and stood at 2.4% as of the June 2023 payout month. There has been no CC utilisation in the transaction till date. Healthy collections and high pool amortisation of ~75% have led to significant build-up of the CE in the pool and the breakeven collection efficiency is ~17% for PTC Series A1. The average monthly prepayment rate for the pool is moderate at 1.5%. 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.

The pool's performance would remain exposed to macro-economic shocks/business disruptions. Given the marginal borrower profile, its performance would also be exposed to natural calamities and political and communal risks.

Performance of past rated pools: ICRA has rated 14 microfinance loan receivable 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 June 2023 payout.

Key rating assumptions

ICRA's cash flow analysis of 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 loss and the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pools 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 2.0-3.0% 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

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 CE are expected to be comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – Rating for PTCs can be upgraded if CC fully covers the future PTC payouts.

Negative factors – The sustained weak collection performance of the underlying pool of contracts leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the performance of the pool till May 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	Rating Methodology for Securitisation Transactions
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 a non-banking financial company-microfinance institution (NBFC-MFI) licence from the Reserve Bank of India. As of March 2023, Muthoot Fincorp Limited had a ~72% stake in the company.

As of March 2023, the company had 1,172 branches (up from 905 branches as of March 2022) across 17 states. As of March 2023, MML had a total portfolio size of about Rs. 9,180 crore with a borrower base of 33.43 lakh. The majority of the portfolio is concentrated in Kerala, Tamil Nadu and Karnataka.

Key financial indicators (audited)

MML	FY2020 (A)	FY2021 (A)	FY2022 (A)	FY2023 (A)
Total income	859.4	696.3	842.9	1,446.3
Profit after tax	18.2	7.1	47.4	163.9
Assets under management	4,707.0	4,950.4	6,233.7	9,088.0
Gross non-performing assets (NPA)	5.8%	8.1%	6.3%	3.0%
Net NPA	4.1%	1.5%	1.6%	0.6%

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
					July 27, 2023	July 12, 2022	June 03, 2022	-	-
1	Gamora 05 2022	PTC Series A1	76.30	12.21	[ICRA]AA+(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
Gamora 05 2022	PTC Series A1	May-22	9.25%	Feb-24	12.21	[ICRA]AA+(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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