

September 22, 2023

## Muthoot Microfin Limited: Ratings upgraded for PTCs issued under four microfinance loan securitisation transactions

### Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after last surveillance (Rs. crore)	Amount O/s after Aug-23 payout (Rs. crore)	Rating Action
Cygnus June 2022	PTC Series A1	81.80	NA	8.50	[ICRA]AAA(SO); upgraded from [ICRA]A+(SO)
Sanders 07 2022	PTC Series A1	72.53	NA	11.67	[ICRA]AA+(SO); upgraded from [ICRA]A+(SO)
NIMBUS 2022 MFI Centaurus	PTC Series A1	59.07	NA	6.70	[ICRA]AA+(SO); upgraded from [ICRA]A+(SO)
Ultron 08 2022	PTC Series A1	75.70	NA	14.46	[ICRA]AA+(SO); upgraded from [ICRA]A+(SO)

\*Instrument details are provided in Annexure I

### Rationale

ICRA has upgraded the ratings for the pass-through certificates (PTCs) issued under four securitisation transactions backed by pools of microfinance loan receivables originated by Muthoot Microfin Limited (MML). The ratings have been upgraded on account of the significant amortisation in the pools, 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 pools.

A summary of the pool performance after the July 2023 collection month (August 2023 payout) is shown in the table below:

Parameter	Cygnus June 2022	Sanders 07 2022	NIMBUS 2022 MFI Centaurus	Ultron 08 2022
Months post securitisation	14	13	13	11
Pool amortisation	78.02%	74.81%	76.94%	71.83%
PTC Series A1 amortisation	89.61%	83.91%	88.66%	80.89%
Cumulative collection efficiency <sup>1</sup>	98.87%	99.43%	98.35%	98.21%
Cumulative Prepayment rate <sup>2</sup>	17.42%	16.56%	16.57%	20.13%
Average monthly prepayment rate	1.36%	1.38%	1.38%	2.02%
Loss cum 30+ dpd (% of initial pool principal) <sup>3</sup>	2.49%	2.15%	2.91%	2.83%
Loss cum 90+ dpd (% of initial pool principal) <sup>4</sup>	2.00%	1.65%	2.37%	1.96%
Breakeven collection efficiency <sup>5</sup> : PTC Series A1	0%	17.55%	8.58%	16.53%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%	0.00%
CC available (as % of balance pool)	45.49%	39.70%	34.70%	44.38%
Excess interest spread (EIS) over balance tenure (as % of balance pool)	5.60%	5.49%	5.43%	6.11%
Principal Subordination (% of balance pool principal)	57.45%	42.52%	56.72%	38.95%

<sup>1</sup> Cumulative collections / (Cumulative billings + opening overdue at the time of securitization)

<sup>2</sup> Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal

<sup>3</sup> Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a % of Initial Pool Principal

<sup>4</sup> Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

<sup>5</sup> (Balance Cash flows payable to investor – CC available) / Balance Pool Cash flows

## Key rating drivers

### Credit strengths

#### For Cygnus June 2022:

- Significant amortisation of pool resulting in cash collateral fully covering the future PTC payouts.
- Healthy collections observed in the pool.

#### For Sanders 07 2022, NIMBUS 2022 MFI Centaurus and Ultron 08 2022:

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

### Credit challenges

#### For all pools:

- 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 all four transactions has been healthy with cumulative collection efficiency in excess of 98% as of the August 2023 payout month. The delinquencies in the harder bucket are low with the loss-cum-90+ days past due (dpd) between 1.6% to 2.4% till the August 2023 payout month. There has been no CC utilisation in any of the transactions till August 2023 payout. Healthy collections and high pool amortisation have led to significant build-up of the CE in the pools and the breakeven collection efficiency is much lower than the collection efficiency reported for these transactions. The CC is fully covering future payouts for the Cygnus June 2022 transaction. The average monthly prepayment rate for the pools is moderate, ranging between 1.3% to 2.0%. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the ratings to the current level in the transactions. ICRA will continue to monitor the performance of the pools. 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.

**Past rated pool performance:** 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 August 2023 payout.

## Key rating assumptions

ICRA's cash flow modelling for rating asset-backed security (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 and the 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 and prepayments during the balance tenure of the pools (except Cygnus pool where CC is fully covering future PTC payouts) are provided in the following table.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Sanders 07 2022	1.75-2.75%	6.0-9.0% p.a.
2	NIMBUS 2022 MFI Centaurus	2.00-3.00%	6.0-9.0% p.a.
3	Ultron 08 2022	2.25-3.25%	6.0-9.0% p.a.

## Liquidity position:

### For Cygnus June 2022: Superior

The liquidity of the rated transaction is expected to be superior as the CC covers the future payouts entirely.

### For Sanders 07 2022, NIMBUS 2022 MFI Centaurus and Ultron 08 2022: 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 transactions. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC investors.

## Rating sensitivities

**Positive factors** – Not applicable for Cygnus June 2022.

For Sanders 07 2022, NIMBUS 2022 MFI Centaurus and Ultron 08 2022, rating for PTCs can be upgraded if CC fully covers the future PTC payouts.

**Negative factors** – Rating is unlikely to be downgraded for the transaction as the CC is fully covering the future PTC payouts for Cygnus June 2022. 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 for the other transactions.

## Analytical approach

The rating action is based on the performance of the pools till July 2023 (collection month), the present delinquency levels and the CE available in the pools, and the performance expected over the balance tenure of the pools.

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 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
					September 22, 2023	September 07, 2022	July 01, 2022	-	-
1	Cygnus June 2022	PTC Series A1	81.80	8.50	[ICRA]AAA(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

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
					September 22, 2023	September 07, 2022	July 21, 2022	-	-
2	Sanders 07 2022	PTC Series A1	72.53	11.67	[ICRA]AA+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

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
					September 22, 2023	September 21, 2022	August 01, 2022	-	-
3	NIMBUS 2022 MFI Centaurus	PTC Series A1	59.07	6.70	[ICRA]AA+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

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
					September 22, 2023	October 13, 2022	August 17, 2022	-	-

4	<b>Ultron 08 2022</b>	PTC Series A1	75.70	14.46	[ICRA]AA+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-
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### Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
<b>Cygnus June 2022</b>	PTC Series A1	Moderately Complex
<b>Sanders 07 2022</b>	PTC Series A1	Moderately Complex
<b>NIMBUS 2022 MFI Centaurus</b>	PTC Series A1	Moderately Complex
<b>Ultron 08 2022</b>	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 Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
<b>Cygnus June 2022</b>	PTC Series A1	June 2022	9.50%	March 2024	8.50	[ICRA]AAA(SO)
<b>Sanders 07 2022</b>	PTC Series A1	July 2022	9.50%	April 2024	11.67	[ICRA]AA+(SO)
<b>NIMBUS 2022 MFI Centaurus</b>	PTC Series A1	July 2022	9.50%	April 2024	6.70	[ICRA]AA+(SO)
<b>Ultron 08 2022</b>	PTC Series A1	August 2022	9.75%	June 2024	14.46	[ICRA]AA+(SO)

*\*Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

*Source: Company*

**Annexure II: List of entities considered for consolidated analysis**

Not Applicable

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