

November 07, 2023

## Protium Finance Limited: Provisional [ICRA]AA(SO) assigned to SNs backed by secured MSME loan (LAP) and machinery loan receivables issued by Turiya BL – 2310

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. Crore)	Rating Action
Turiya BL – 2310	Series A1 SNs	51.35	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
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### Rationale

ICRA has assigned a Provisional [ICRA]AA(SO) rating to Series A1 SNs issued under a securitisation transaction originated by Protium Finance Limited. The Securitisation Notes (SNs) are backed by a pool of Rs. 89.95-crore secured MSME (LAP) loan and machinery loan receivables (underlying pool principal of Rs. 54.63 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 5.00% of the pool principal to be provided by Protium, (ii) subordination in the form of overcollateralisation of 1% of the pool principal and equity tranche of 5.00% of the pool principal for Series A1 SNs and (iii) the entire excess interest spread (EIS) of 37.16% 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 credit enhancement in the form of CC, EIS and subordination
- There are no overdue contracts in the pool as on the cut-off date
- All the contracts have credit bureau score 700 and above as on cut off date

#### Credit challenges

- Moderate geographical concentration with top three states accounting for ~52% share in the initial pool principal
- SN yield for the pool is linked to an external benchmark while interest rate on the underlying loans is linked to the originator's lending rate, leading to basis risk in the structure
- Limited vintage has been observed since 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, if any

### Description of key rating drivers highlighted above

As per the transaction structure, the monthly promised cash flow schedule comprises 94% of the monthly billed principal amount and the interest payment to Series A1 SNs at the predetermined interest rate on the principal outstanding. The balance principal payouts to Series A1 SNs are on expected basis. Payouts to equity tranche are completely subordinated to Series A1 SNs. Following the redemption of Series A1 SNs in full, the principal payment will be made to the equity tranche. The EIS available after meeting the promised payout to Series A1 SNs is being passed on as expected yield / EIS to equity tranche.

The first line of support for Series A1 SNs in the transaction is in the form of a subordination of 6.00% of the pool principal. A CC of 5.00% of the pool principal (Rs. 2.73 crore) to be provided by Protium Finance Limited, will act as further credit enhancement in the transaction. In the event of shortfall in meeting the promised SN payouts during any month, the trustee will utilise the CC to meet the shortfall. Further, the support is available in the form of the EIS. If PAR-90 of the pool exceeds 4% of the original pool principal amount, then the EIS shall be utilized towards repayment of principal payout to Series A1 SNs till the SNs Series A1 are fully extinguished.

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 12 months till cut off date. The average pre-securitisation amortisation stood at ~11% as on the cut-off date. Further, all the contracts in the pool have a CIBIL score of at least 700. The pool has moderate geographical concentration with the top 3 states (Karnataka, Maharashtra and West Bengal) contributing ~52% to the initial pool principal amount. The interest rate for the contracts in the pool is floating linked to Originator's lending rate while the SN yield is linked to an external benchmark, thereby creating a basis 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) and Machinery loans receivables to be rated by ICRA. The previous two transactions consisted of MSME (LAP) loan receivables. One transaction which has completed at least 2 payouts post securitisation has reported healthy cumulative collection efficiency above 99% and delinquency for 0+ days past due below 0.7% till October 2023 payout month. There has been nil CC utilisation in the transaction till date.

### 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 4.50-5.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-20.0% per annum with mean of 14.0%.

### Liquidity position: Strong

As per the transaction structure, both interest and principal are promised to SNs investors on monthly basis. The cash collections and credit collateral available are expected to be comfortable to meet the promised payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the SN payouts for 9 months.

### Rating sensitivities

**Positive factors** – 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** – 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 June 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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](http://www.icra.in).

## About the company

Protium Finance Limited (Protium) is a systemically important non-deposit taking (ND-SI) non-banking finance company (NBFC) registered with the Reserve Bank of India (RBI). The company was incorporated in 2019 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 had an asset under management (AUM) of Rs. 2,908 crore with customer base of 3 lakhs as of March 2023 against an AUM of Rs. 1,415 crore with a customer base of Rs. 91,602 as of March 2022. Protium operates through a network of 85 branches spread across 17 states as on March 31 2023.

### 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	1,415	2,908
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	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Nov 07, 2023	-	-	-
1	Turiya BL – 2310	Series A1 SNs	51.35	51.35	Provisional [ICRA]AA(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 SNs	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 BL – 2310	Series A1 SNs	October 2023	8.95%	November 2034	51.35	Provisional [ICRA]AA(SO)

*\*linked to 1 year MCLR of investor \*\*Scheduled maturity date at transaction initiation; may change on account of prepayments*

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

Not applicable

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Sachin Joglekar**

+91 22 6114 3470

[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

**Himanshi Doshi**

+91 22 6114 3410

[himanshi.doshi@icraindia.com](mailto:himanshi.doshi@icraindia.com)

**Priya Gounder**

+91 22 6114 3454

[priya.gounder@icraindia.com](mailto:priya.gounder@icraindia.com)

**Ritu Rita**

+91 22 6114 3409

[ritu.rita@icraindia.com](mailto:ritu.rita@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3304

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

### 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](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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