

November 06, 2024

Keertana Finserv Private Limited: Provisional [ICRA]A+(SO) assigned to Series A1(a) PTCs and Provisional [ICRA]A(SO) assigned to Series A1(b) PTCs backed by micro enterprises loan receivables issued by Achernar 10 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Achernar 10 2024	Series A1(a) PTCs	27.25	Provisional [ICRA]A+(SO); assigned
	Series A1(b) PTCs	3.11	Provisional [ICRA]A(SO); assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents

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

Rationale

The pass-through certificates (PTCs) are backed by a pool of micro enterprises loan receivables originated by Keertana Finserv Private Limited (Keertana/originator; {[ICRA]BBB(Stable)}) with an aggregate principal outstanding of Rs. 35.50 crore (pool receivables of Rs. 43.82 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

Till March 10, 2026, the monthly collections from the pool will be used for making the promised interest payouts to Series A1(a) PTC and A1(b) PTC on a pari passu basis. After making the promised interest payouts to Series A1(a) PTC and A1(b) PTC, collections will be used to make the expected principal payouts to Series A1(a) PTC till its redemption followed by the expected principal payout to Series A1(b) PTC. The entire principal repayment to Series A1(a) PTC and A1(b) PTC is promised on the scheduled maturity date of the respective tranches.

From March 11, 2026, till the final maturity date, the collections from the pool will be used for making the promised interest payouts to Series A1(a) PTC and A1(b) PTC on a pari passu basis. After this, collections will be utilised for the expected principal redemption of Series A1(a) PTC and A1(b) PTC on a pari passu basis.

Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. All prepayment amounts would be passed on to Series A1(a) PTC till March 10, 2026. From March 11, 2026, the prepayment amounts would be passed on to Series A1(a) PTC and A1(b) PTC on a pari passu basis for the respective amounts outstanding till complete redemption. Payouts to the equity tranche PTC payouts are completely subordinated to the Series A1 payouts.

However, on the occurrence of predefined trigger events, the 100% residual EIS every month shall be utilised for accelerating the principal payment due to Series A1 PTCs as per above mentioned schedule. The event is triggered by current collection efficiency in respect of the pool is less than 95% for any two consecutive payouts and / or PAR>90 of the pool is more than 5.00% of the initial principal outstanding.

Credit enhancement is available in the form of (i) a cash collateral (CC) of 3.00% of the initial pool principal amounting to Rs. 1.07 crore to be provided by the Originator, (ii) subordination of 23.25% of the initial pool principal (including the principal payable to Series A1(b) PTCs, equity tranche and over-collateralisation) for Series A1(a) PTCs and subordination of 14.50%

of the initial pool principal for Series A1(b) PTCs (including equity tranche and over-collateralisation), and (iii) excess interest spread (EIS) of 14.50% for Series A1(a) PTCs and Series A1(b) PTCs.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 8,090 contracts, with no contract exceeding 0.1% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there are no overdue contracts as on the cut-off date. Further, none of the contracts in the pool have ever been delinquent, which is a credit positive.

Seasoned contracts in the pool – The pool has moderate amortisation of ~16% as on the cut-off date thereby reflecting the borrowers' better credit profile, repayment track record and buildup of borrower equity.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top state, viz. Andhra Pradesh contributing ~79% to the initial pool principal amount. The concentration remains high even at district-level with top 5 districts accounting for ~55% of the initial pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The performance of microfinance loans would also be exposed to political and communal risks.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered based on the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 5.00% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 3.0% to 9.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Liquidity position

For Series A1(a) PTCs: Superior

The liquidity for Series A1(a) PTCs is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~6.75 times the estimated loss in the pool.

For Series A1(b) PTCs: Strong

The liquidity for Series A1(b) PTCs is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~5.25 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement 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 credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (Keertana) could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of Keertana’s portfolio till June 2024, 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 a final rating 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

Keertana Finserv Private Limited (Keertana/KFPL) is a non-deposit taking NBFC. It was incorporated in February 1996 as Rajshree Tracom Pvt Ltd and received its NBFC licence in 2001 from the RBI. The company was dormant with no business till

the current promoters acquired it at the end of March 2022. Following the approval from the RBI for a change in management and control, the current promoters purchased all the shares of the erstwhile promoters. The company is currently managed by Ms. Padmaja Reddy, the erstwhile Managing Director of Spandana Sphoorthy Financial Limited (SSFL; NBFC-MFI). Keertana acquired its gold loan business from SMBT (Rs. 191 crore) and the MSME business from SRUDO (Rs. 14 crore) as per a business transfer agreement dated April 04, 2022.

Keertana's AUM stood at Rs. 2,238 crores through 300 branches as of June 2024. Gold loans contributed 56% to the AUM while JLG, LAP and MSME accounted for remaining 44% as of June 2024. Keertana reported a provisional net profit of Rs. 31 crores on a managed asset base of Rs. 2,238 crores in Q1FY2025 compared with a net profit of Rs. 72 crores on a managed asset base of Rs. 1,718 crores in FY2024.

Key financial indicators

Keertana (standalone)	Ind-AS	Ind-AS	Ind-AS
	Audited	Audited	Provisional
	FY2023	FY2024	Q1 FY2025
Total income	91.8	276.8	115.0
Profit after tax	16.0	71.6	30.7
Total managed assets	700.6	1,718.1	2,238.5
Gross stage 3	0.0%	0.0%	0.1%
CRAR	26.0%	23.7%	26.1%

Source: Company, ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
	Instrument	Initial Amount Rated (Rs. crore)	Current Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				November 6, 2024	-	-	-
Achernar 10 2024	Series A1(a) PTCs	27.25	27.25	Provisional [ICRA]A+(SO)	-	-	-
	Series A1(b) PTCs	3.11	3.11	Provisional [ICRA]A(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1(a) PTCs	Moderately Complex
Series A1(b) PTCs	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 (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Achernar 10 2024	Series A1(a) PTCs	October 30, 2024	12.55%	July 09, 2026	27.25	Provisional [ICRA]A+(SO)
	Series A1(b) PTCs	October 30, 2024	13.70%	July 10, 2026	3.11	Provisional [ICRA]A(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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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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