

November 07, 2024

Protium Finance Limited: Provisional [ICRA]AA+(SO) assigned to Series A PTCs backed by secured MSME (LAP) loan receivables issued by Turiya LAP 241001

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Turiya LAP 241001	Series A PTCs	42.91	Provisional [ICRA]AA+(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
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Rationale

The pass-through certificates (PTCs) are backed by a pool of secured MSME (LAP) loan receivables originated by Protium Finance Limited with an aggregate principal outstanding of Rs.45.17 crore (pool receivables of Rs. 77.20 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

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The residual cash flows from the pool, after meeting the promised and expected payouts, will be used for the prepayment of Series A PTCs principal. Any prepayment in the pool would be used for the prepayment of the Series A PTCs principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 8.00% of the initial pool principal, amounting to Rs. 3.61 crore, to be provided by the Originator, (ii) principal subordination of 5.00% of the initial pool principal for Series A PTCs, and (iii) the EIS of 56.00% of the initial pool principal for Series A PTCs.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 746 obligors, with top 10 obligors forming only 7.89% of the initial 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. Also, none of the contracts have never been overdue since origination which is a credit positive

Strong CIBIL score of the underlying borrowers – Majority of the borrowers in the pool (~81 of the initial pool principal) have have a CIBIL score of more than or equal to 700 which signifies a strong credit history of such borrowers.

Contracts backed by self-occupied residential properties – A major part of the pool (92% of its contracts in terms of the principal amount outstanding on the cut-off date) is backed by self-occupied residential properties. This is expected to support

the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial periods.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Karnataka, Rajasthan and Tamil Nadu, contributing ~53% to 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 6.00% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 6.0% to 20.0% 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 A PTCs: Superior

The liquidity for Series 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 greater than 9 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 (PFL) could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of Protium'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

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. Protium is engaged in providing secured and unsecured loans to MSME, educational institution & hospital funding, consumer loans and small financial institutional funding.

Key financial indicators

Protium Finance Limited	FY2022 IND AS	FY2023 IND AS	FY2024 IND AS
Total Income	159.5	432.5	729.0
Profit After Tax	14.0	59.5	115.3
Assets Under Management	1,415.1	2,908.1	4,941.9
Gross stage 3	0.2%	0.7%	1.7%
CRAR	80.6%	50.3%	57.9%

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 7, 2024	-	-	-
Turiya LAP 241001	Series A PTCs	42.91	42.91	Provisional [ICRA]AA+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A 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
Turiya LAP 241001	Series A PTCs	October 29, 2024	8.60%	October 10, 2034	42.91	Provisional [ICRA]AA+(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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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.

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