

March 20, 2025

Arthan Finance Private Limited: Rating upgraded for PTCs issued under a secured MSME loans 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
2023 SBL MISSOURI	Series A PTC	5.42	NA	2.52	[ICRA]BBB+(SO); Upgraded from [ICRA]BBB(SO)

*Instrument details are provided in Annexure I

Rationale

The pass-through-certificate (PTCs) are backed by a pool of secured micro, small & medium enterprise (MSME) loan receivables originated by Arthan Finance Private Limited {Arthan/Originator}. Arthan would also act as the servicer for the transaction.

The rating upgrade factors in the build-up of the credit enhancement cover over the future PTC payouts on account of the high pool amortisation and healthy pool performance, although there has been a slight dip in collection in the last few months leading to a minimal increase in delinquencies. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the February 2025 payout month.

Pool performance summary

Particulars	2023 SBL MISSOURI
Payout month	Feb-25
Months post securitisation	14
Pool amortisation	39.50%
Series A PTC amortisation	53.56%
Cumulative collection efficiency ¹	99.50%
Loss-cum-30+ days past due (dpd) ² (% of initial pool)	4.13%
Loss-cum-90+ dpd ³ (% of initial pool)	2.14%
Cumulative cash collateral (CC) utilisation	0.00%
Cumulative prepayment rate	15.44%
Breakeven collection efficiency ⁴ for Series A PTC	43.26%
CC available (as % of balance pool principal)	16.53%
Principal subordination (% of balance pool) Series A PTC	27.08%
Excess interest spread (EIS ⁵ ; % of balance pool) Series A PTC	38.55%

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 Series A PTC investor – CC available)/Balance pool cash flows

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

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 payouts, will be used for the prepayment of Series A PTC principal. Any prepayment in the pool would be used for the prepayment of Series A PTC principal.

Key rating drivers and their description

Credit strengths

Substantial credit enhancement available in the structure – The rating action factors in the build-up in the credit enhancement with the cash collateral increasing to 16.5% of the balance pool principal from 10.0% at the time of securitisation. Internal credit support is also available through principal subordination along with excess interest spread (EIS).

Contracts backed by residential properties – Majority of the contracts in the pool are backed by 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 stress.

Servicing capability of Arthan– The company has demonstrated considerable track record of regular collections and recovery across multiple geographies and economic cycles. It also has satisfactory processes for servicing the loan accounts in the securitised pool.

Credit Challenges

High geographical concentration – The pool has high geographical concentration with the top states, viz. Maharashtra, contributing ~66% to the balance pool principal amount. The pool's performance would thus be exposed to any statewide disruption that may occur due to natural calamities, political events, etc.

Risk 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.

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 on the basis of 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 4.50% of the initial pool principal. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18% 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.

Details of key counterparties

The key counterparties in the rated transaction is as follows:

Transaction Name	2023 SBL MISSOURI
Originator	Arthan Finance Private Limited
Servicer	Arthan Finance Private Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	RBL Bank
Collection and payout account bank	ICICI Bank

Liquidity position: Superior

The liquidity for the instrument in the transaction is superior after factoring in the credit enhancement available to meet the promised payouts to the investors. The total credit enhancement would be ~10.00 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pool till January 2025 (collection month), the present delinquency levels and the credit enhancement 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

Arthan Finance Private Limited was incorporated on December 11, 2018. Arthan was established by ex-RBL Bank employees with expertise in sales in the retail segment, MSME lending, business correspondent (BC) partnerships, credit and strategy. It is a non-deposit taking non-banking financial company (NBFC) licensed by the Reserve Bank of India (RBI) with the objective of lending to self-employed entrepreneurs, MSMEs and consumers in India with differentiated models based on new technologies coupled with local expertise.

Arthan is focused on credit/loan availability to budding entrepreneurial customers with digital loan processes and bespoke products, catering to the financial needs of MSMEs to help grow their businesses. The client base includes businesses like kirana stores, hotels and restaurants, pharmacies, hardware shops, servicing garages, small manufacturers and food processors, retail and wholesale traders, etc. As of December 2024, the assets under management (AUM) stood at Rs. 171.84 crore.

Key financial indicators (standalone)

	FY2023	FY2024	9MFY2025
	Audited	Audited	Unaudited
Total income	26.34	33.33	29.16
Profit after tax	-2.96	-3.30	-3.39
Assets Under Management	111.43	124.84	171.84
Gross stage 3 (% of advances)*	3.90%	5.54%	5.94%
CRAR	21.03%	16.45%	37.22%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

*Gross stage 3% as percentage of AUM stood at 4.43% and 4.50% as on March 31, 2024 and December 31, 2024 respectively.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years				
		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
				Mar 20, 2025	Mar 20, 2024	Jan 05, 2024	-	-
2023 SBL MISSOURI	Series A PTC	5.42	2.52	[ICRA]BBB+(SO)	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	-	-

Complexity level of the rated instrument

Transaction	Instrument	Complexity Indicator
2023 SBL MISSOURI	Series A PTC	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 (p.a.p.m.)	Final Maturity Date	Current Amount Rated (Rs. crore)	Current Rating
2023 SBL MISSOURI	Series A PTC	December 29, 2023	13.50%	August 17, 2026	2.52	[ICRA]BBB+(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Sumit Pramanik
+91 22 6114 3431
sumit.pramanik@icraindia.com

Pratik Vora
+91 22 6114 3433
pratik.vora@icraindia.com

Sheetal Nayak
+91 22 6114 3420
sheetal.nayak@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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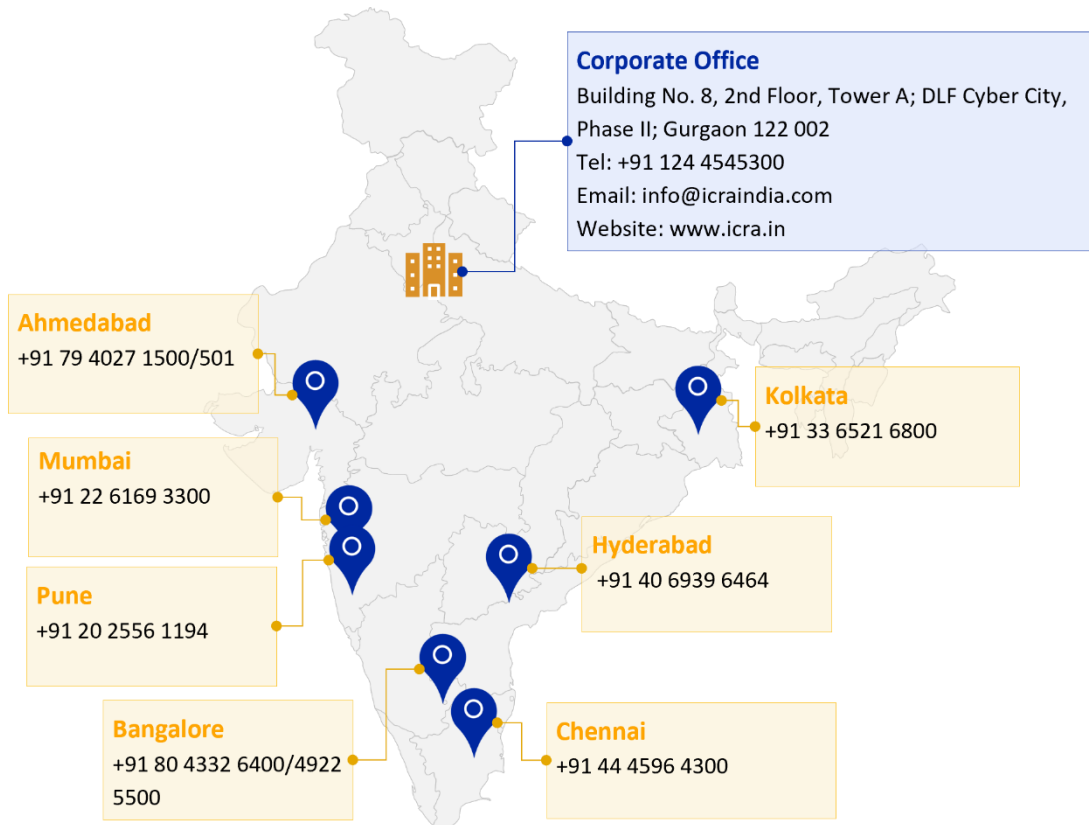


Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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