March 31, 2021

Magma Fincorp Limited: Provisional [ICRA]AA(SO) assigned to PTCs Series A1 and PTC Series A2 backed by tractor loan receivables issued by MFL Securitisation Trust XCIX; Provisional [ICRA]BBB-(SO) assigned to Second loss facility

Summary of rating action

Trust Name	Instrument*	Current rated amount (Rs. crore)	Rating Action
MFL Securitisation Trust XCIX	PTC Series A1	57.29	Provisional [ICRA]AA(SO); Assigned
	PTC Series A2	3.66	Provisional [ICRA]AA(SO); Assigned
	Second Loss Facility	3.66	Provisional [ICRA]BBB-(SO); Assigned

**Instrument details are provided in Annexure-1*

Rationale

ICRA has assigned Provisional [ICRA]AA(SO) ratings to pass through certificates (PTC) Series A1 & PTC Series A2 and Provisional [ICRA]BBB-(SO) rating to Second Loss Facility (SLF) under a securitisation transaction originated by Magma Fincorp Limited (MFL). The PTCs are backed by a pool of Rs. 76.74 crore Tractor loan receivables (underlying pool principal of Rs. 60.95 crore).

The provisional ratings assigned are based on the strength of cash flows from the selected pool of contracts; MFL's track record in the tractor loan business; the available credit enhancement and the integrity of the legal structure. The ratings are subject to fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of Excess Interest Spread (EIS) and cash collateral (CC)
- The selected pool is characterized by moderate seasoning profile (weighted average seasoning of around 19 months)
- Absence of any overdue contracts as on pool cut-off date

Credit challenges

- The pool has moderate geographical concentration with top 3 states contributing around 63% of pool
- The pool has a moderate share of contracts with LTV greater than 70%
- Pool performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic
- Performance of pool would remain vulnerable to agro climatic risk that may impact the income-generating capability of the borrower

Description of key rating drivers highlighted above

MFL would assign to an SPV (Trust) namely MFL Securitisation Trust XCIX, the future receivables arising from selected pool of 2,214 tractor loan contracts. The transfer would be at par. The Trust will issue two series of PTCs backed by the receivables. The upfront purchase consideration to be paid by PTC Series A1 to the Trustee will be 94.00% of the pool principal i.e. Rs. 57.29 crore while that payable by PTC Series A2 to the Trustee will be 6.00% of the pool principal i.e. Rs. 3.66 crore. An important feature of the structures of these transactions is that the yield on PTC Series A2 is residual thereby extending further support to the transaction.

The first line of support for meeting any shortfall in scheduled PTC payouts is available in the form of subordination of the EIS in the structure (amounting to around 17.5% of the pool principal amount). Further support is available through CC stipulated at 10.00% of the total pool principal amount (Rs. 6.09 crore). The CC will be split into First Loss Facility (FLF) amounting to 4.00% of the pool principal amount (Rs. 2.44 crore) and SLF amounting to 6.00% of the pool principal amount (Rs. 3.66 crore). The SLF would be utilized only after the FLF is exhausted.

The selected pool consists of receivables against loans given for financing tractor loans. The pool is characterised by moderate seasoning (weighted average seasoning of around 19 months), moderate LTV (weighted average LTV of around 75%) and no overdue contracts as on pool cut-off date. The pool has moderate geographical concentration with the top 3 states contributing around 63% of overall pool principal. ICRA notes that all the contracts have paid all the instalments post the end of the moratorium, which provides comfort. Nonetheless, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the borrower profile, the pool's performance would remain vulnerable to agro climatic risk that may impact the income-generating capability of the borrower.

Performance of past rated pools

In the past, ICRA has rating outstanding on three multi asset loan pool (with Cars, CVs, Tractors and/or CEs as the underlying asset class) originated by MFL. The performance of live pools has been healthy with cumulative collection efficiency upwards of 95% and loss-cum-90+ dpd remaining below 2.3% as on Feb-21 payouts. There has been nil credit collateral utilization in three pools as on Feb-21 payouts.

Key rating assumptions

ICRA's cash flow modelling for rating ABS transactions involves simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for mean shortfall and the Co-efficient of Variation (CoV) are arrived on the basis of the values observed in the analysis of the Originator's loan portfolio. Additionally, the assumptions may also be adjusted to account for the current macro-economic situation as well as any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 4.25% - 5.25%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 8.0% - 12.0% per annum.

Liquidity position: Strong for PTCs

The liquidity is expected to be strong supported by the collections from the pool of contracts and the presence of CC available in the transaction amounting to 10.00% of the pool principal amount. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover seven months of PTC payouts in full.

Liquidity position: Adequate for SLF

The cash flows from the pool and the available first loss facility is adequate for the top-up of the SLF, if needed, as per the defined waterfall mechanism.

Rating sensitivities

Positive factors – Sustained strong collection performance of the underlying pool contracts (Monthly collection efficiency >95%), leading to lower than expected delinquency levels, and on an increase in the cover available for future PTC payouts from the credit enhancement (CE)

Negative factors – Sustained weak collection performance of the underlying pool (Monthly collection efficiency <90%) leading to higher than expected delinquency levels and CE utilization levels

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Magma Fincorp Limited (formerly MFL Leasing Limited and MFL Shrachi Finance Limited) was incorporated in 1988 and is registered with the Reserve Bank of India (RBI) as an asset-financing non-banking financial company (NBFC). MFL primarily provides finance for commercial vehicles (CVs), construction equipment (CE), passenger cars, used assets, tractors, SME and mortgage assets. While MFL has a long track record in asset-based product financing (CVs, CE, cars, tractors), its SME business gained volume only from FY2014. The company entered mortgage financing in February 2013 and general insurance through a joint venture in October 2012.

In FY2020, MFL recorded a consolidated profit after tax of Rs. 27 crore on a total consolidated asset base of Rs. 15,852 crore compared with a consolidated profit after tax of Rs. 304 crore on a total consolidated asset base of Rs. 17,346 crore in FY2019. In 9M FY2021, Magma reported a consolidated profit after tax of Rs. 89 crore on a total consolidated asset base of Rs. 15,117 crore. Magma reported assets under management of Rs. 15,006 crore as on December 31, 2020. Vehicle loans continued to dominate the portfolio mix at 62% followed by mortgage (28%) and SME (10%). The gross stage 3 asset ratio stood at 6.9% as on December 31, 2020 (vs. 6.4% as on March 31, 2020) and the net stage 3 asset ratio at 4.5% as on December 31, 2020 (vs. 4.2% as on March 31, 2020).

Key financial indicators (audited; consolidated)

Magma Fincorp Limited	FY2019	FY2020	9M FY2021
Total income	2,495	2562	1,179
Profit after tax	304	27	89
Total assets under management	17,028	16,134	15,006
Gearing (times)	4.8	4.4	3.8
% Gross NPA	4.8%	6.4%	3.7%
% Net NPA	3.1%	4.2%	2.4%

Source: Company, ICRA research; All ratios as per ICRA calculation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="2"></th><th rowspan="2">Instrument</th><th colspan="4">Current Rating (FY2021)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th>Type</th><th>Amount Rated (Rs. crore)</th><th>Amount Outstanding (Rs. crore)</th><th>Date & Rating in
March 31, 2021</th><th>Date & Rating in FY2020
-</th><th>Date & Rating in FY2019
-</th><th>Date & Rating in FY2018
-</th></tr>
<tr><td rowspan="3">1</td><td rowspan="3">MFL Securitisation Trust XCIX</td><td>PTC Series A1</td><td>57.29</td><td>57.29</td><td>Provisional [ICRA]AA(SO)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>PTC Series A2</td><td>3.66</td><td>3.66</td><td>Provisional [ICRA]AA(SO)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Second Loss Facility</td><td>3.66</td><td>3.66</td><td>Provisional [ICRA]BBB-(SO)</td><td>-</td><td>-</td><td>-</td></tr>
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Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate (p.a.p.m)	Maturity Date*	Amount Rated (Rs. Crore)	Current Rating
MFL Securitisation Trust XCIX	PTC Series A1	March 2021	6.00%	September 2025	57.29	Provisional [ICRA]AA(SO)
	PTC Series A2	March 2021	Residual	September 2025	3.66	Provisional [ICRA]AA(SO)
	Second Loss Facility				3.66	Provisional [ICRA]BBB-(SO)

** Scheduled maturity at transaction initiation; may change on account of prepayment*

Source: *Company*

Annexure-2: 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.

For more information, visit www.icra.in

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