May 03, 2021

Magma Fincorp Limited: Rating reaffirmed for PTCs and SLF issued under one commercial vehicle and tractor loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Apr-21 Payout (Rs. crore)	Rating Action
MFL Securitisation Trust LXXVII	PTC Series A1	159.67	93.79	52.37	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	8.40	4.94	2.76	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility (SLF)	8.82	8.82	8.82	[ICRA]BBB-(SO); Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The pass-through certificates (PTCs) are backed by a pool of commercial vehicle and tractor loan receivables originated by Magma Fincorp Limited (MFL). The rating has been reaffirmed on account of the high amortisation in the transaction, which has led to a build-up of the credit enhancement cover over the future PTC payouts. The pool has also exhibited low delinquency levels in harder buckets.

A summary of the performance of the pools after the April 2021 payouts (March 2021 collection month) has been provided below.

Parameter	MFL Securitisation Trust LXXVII
Months post securitisation	25
Pool amortisation (%)	65.19%
PTC amortisation (%)	67.20%
Cumulative collection efficiency[1] (%)	96.36%
Cumulative prepayment rate	12.64%
Average monthly prepayment rate	0.54%
Loss-cum-30+[2] (% of initial pool principal)	8.75%
Loss-cum-90+[3] (% of initial pool principal)	2.77%
Breakeven collection efficiency (%)[4]	60.56%
Cumulative Cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	29.45%
Excess interest spread (EIS) over balance tenure (as % of balance pool)	11.60%

[1] Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction
[2] POS on contracts aged 30+ dpd + overdues / Initial POS on the pool
[3] POS on contracts aged 90+ dpd + overdues / Initial POS on the pool
[4] Breakeven Collection Efficiency= balance PTC cashflows- cash collateral available/ balance pool cashflows

Key rating drivers

Credit strengths

- High amortisation of PTCs resulting in build-up of CC and EIS cover available for the balance PTC payouts;
- Healthy collection efficiency witnessed in the pool
- Low delinquency levels exhibited in the harder buckets

Credit challenges

- Moderate share of high LTV contracts in the balance pool
- 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

The performance of the pool has been good with a cumulative collection efficiency of 96.4% (till March 2021 collections). There has been no instance of CC utilisation owing to healthy collections in the pool. The shortfall in the collections have been absorbed by the EIS in the structure. The pool has amortised by around 65%. Thus, the credit enhancement has built up considerably with respect to the balance pool principal.

The pool has exhibited low delinquencies with loss cum 30+ dpd being 8.75% and loss cum 90+ dpd being 2.77% after April 2021 payout. 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 balance pool has a moderate share of contracts with LTV greater than 80%. The performance of the pool would remain exposed to any fresh disruptions caused by the pandemic.

Overall, the credit enhancement available for meeting balance payouts to the investors (including downward reset in the cash collateral) is sufficient to reaffirm the rating at the current rating level in the transaction. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations.

Performance of past rated pools

In the past, ICRA has rating outstanding on four 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 3.0% as on Apr-21 payouts. There has been nil credit collateral utilization in live pools as on Apr-21 payouts.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of 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 and the past rated pools, 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 contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 2.5% - 3.5%, 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 ~29% of the pool principal amount. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the available credit collateral would cover twelve 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 – The rating is likely to get upgraded with sustained healthy collections such that the credit enhancement covers a higher percentage over the balance PTC payouts.

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

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2019	Date & Rating in FY2019
					May 03, 2021	June 25, 2020	June 05, 2019^	March 27, 2019*
1	MFL Securitisation Trust LXXVII	PTC Series A1	159.67	52.37	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)
		PTC Series A2	8.40	2.76	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)
		Second Loss Facility	8.82	8.82	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)

** Initial rating assigned*
^Final rating assigned

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 LXXVII	PTC Series A1	March 2019	7.91%	March 2024	52.37	[ICRA]AA(SO)
	PTC Series A2		Residual		2.76	[ICRA]AA(SO)
	Second Loss Facility		--		8.82	[ICRA]BBB-(SO)

** Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

Annexure-2: 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

Gaurav Mashalkar
+91 22 6114 3431
gaurav.mashalkar@icraindia.com

Sushant Vanmali
+91 22 6114 3436
sushant.vanmali@icraindia.com

Vishal Soni
+91 22 6114 3400
vishal.soni@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6169 3304
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

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.

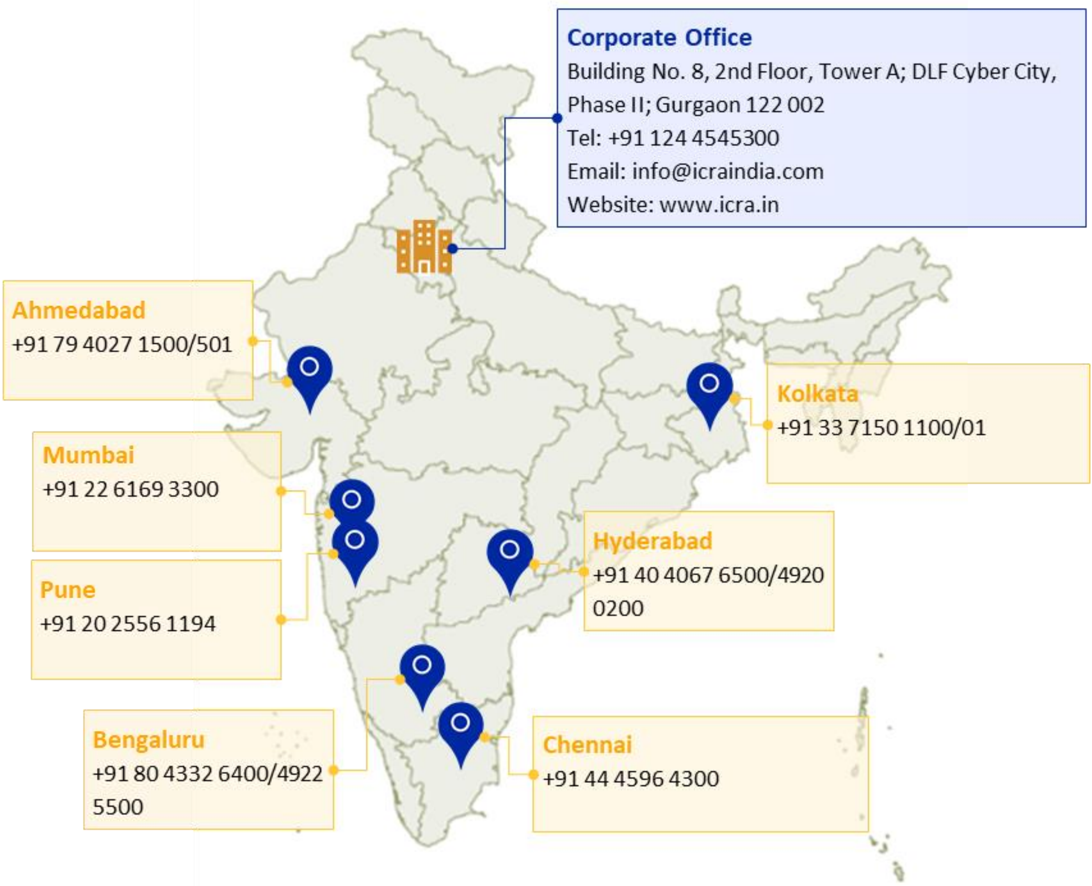
For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.