**October 28, 2021**

# Poonawalla Fincorp Limited: Ratings reaffirmed for PTCs and SLF issued under one 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 Sep-21 Payout (Rs. crore) | Rating Action |
|---|---|---|---|---|---|
| MFL Securitisation Trust XCII | PTC Series A1 | 47.57 | 31.90 | 15.92 | [ICRA]AA(SO); Reaffirmed |
| | PTC Series A2 | 1.47 | 0.99 | 0.49 | [ICRA]AA(SO); Reaffirmed |
| | Second Loss Facility (SLF) | 1.59 | 1.59 | 1.59 | [ICRA]BBB-(SO); Reaffirmed |

**Instrument details are provided in Annexure-1*

## Rationale

The pass-through certificates (PTCs) are backed by a pool of tractor loan receivables originated by Poonawalla Fincorp Limited (PFL) (erstwhile Magma Fincorp Limited). The ratings have 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 ratings draw comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection level observed in the pools till the September 2021 payout month. However, the pool's performance might get impacted in case of any future disruptions due to the Covid-19 pandemic.

A summary of the performance of the pool after the September 2021 payouts (August 2021 collection month) has been provided below.

| Parameter | MFL Securitisation Trust XCII |
|---|---|
| Months post securitisation | 24 |
| Pool amortisation (%) | 64.12% |
| Cumulative collection efficiency[1] (%) | 96.45% |
| Last 3 months' average monthly collection efficiency | 93.33% |
| Cumulative prepayment rate | 17.02% |
| Average monthly prepayment rate | 0.77% |
| Loss-cum-90+[2] (% of initial pool principal) | 3.78% |
| Loss-cum-180+[3] (% of initial pool principal) | 1.48% |
| Breakeven collection efficiency (%)[4] | 61.31% |
| Cumulative credit collateral (CC) utilisation | 0.00% |
| First loss facility available (as % of balance pool) | 19.51% |
| Second loss facility available (as % of balance pool) | 9.06% |
| Excess interest spread (EIS) over balance tenure (as % of balance pool) | 14.67% |

**Reset of credit enhancement**

[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 90+ dpd + overdues / Initial POS on the pool*
[3] *POS on contracts aged 180+ dpd + overdues / Initial POS on the pool*
[4] *Balance PTC cashflows- credit collateral available/ balance pool cashflows*

At the request of PFL for reset of credit enhancement, ICRA has analysed the transaction at a CC of 18.91% of the balance pool principal (i.e. Rs. 4.01 crore) as against current available CC of 28.56% of the balance pool principal (after September 2021 payouts). Based on the pool performance, ratings for all tranches and SLF will remain unchanged even after reset of the CC amount. The CC reset shall be subject to approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between current CC amount and the revised CC amount allowed by ICRA.

## Key rating drivers

### Credit strengths

- High amortization of PTCs resulting in build-up of CC and EIS cover available for the balance PTC payouts
- Healthy collection efficiency exhibited by the pool

### Credit challenges

- Moderate geographical concentration of the contracts in the pool at the state level
- Moderate share of higher LTV contracts in pool
- Performance of the pool would be exposed to any prolonged economic slowdown being caused by the Covid-19 pandemic

## Description of key rating drivers highlighted above

The performance of the pool has been good with a cumulative collection efficiency of 96.4% (till August 2021 collections). There has been no instance of CC utilisation owing to healthy collections in the pool. The shortfalls in the collections have been absorbed by the EIS in the structure. The pool has amortised by 64.1%. Thus, the credit enhancement has built up considerably with respect to the balance pool principal.

The pool has exhibited rising delinquencies in recent months on account of lower collections (77% ~ 88%) during the second wave of the pandemic. However, delinquencies in harder buckets are lower with loss cum 90+ dpd being 3.78% and loss cum 180+ dpd being 1.48% after September 2021 payout. 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 (after downward reset in the CC) 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**

ICRA has rating outstanding on three multi asset loan pool (with CVs and/or tractors as the underlying asset class) originated by PFL. The performance of live pools has been healthy with cumulative collection efficiency upwards of 95% and loss-cum-90+ dpd remaining below 4.0% as on Sep-21 payouts. There has been nil CC utilization in live pools as on Sep-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 3.5% - 4.5%, 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**

Liquidity position is strong as the collections from the pool and credit collateral available are expected to be comfortable to meet the balance PTC payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in the current stress scenario, the available credit collateral would cover the shortfalls in the promised investor payouts for a period of eight months.

**Adequate for SLF**

The second loss facility has adequate support available in the transactions from the first loss facility and EIS.

## Rating sensitivities

**Positive factors** – The ratings can be upgraded, provided healthy collections on a sustained basis resulting in increase of CC cover over the balance PTC payouts.

**Negative factors**– Pressure on the ratings could emerge due to sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and CE utilization level.

## 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

Poonawalla Fincorp Limited (PFL, erstwhile Magma Fincorp Limited) was incorporated in 1988 and is registered with the Reserve Bank of India (RBI) as an asset-financing non-banking financial company (NBFC). Following the acquisition of controlling stake by Adar Poonawalla-led Rising Sun Holdings Private Limited in May 2021, the Company was renamed to Poonawalla Fincorp Limited in July 2021. As on June 30, 2021, Rising Sun Holdings Private Limited held 59.9% stake in PFL. Post the transaction, there has been a change in the management with Mr. Adar Poonawalla appointed as the Chairman along with a revamped senior management team.

PFL, on a consolidated basis had Assets under Management (AUM) of Rs 14,424 crore as on June 30, 2021 which can be broadly divided into mortgage (32%), used cars (15%) and SME (10%) with remaining 44% of the portfolio being in the form of discontinued products (new car, CV, CE, used CV/CE, tractor).

In FY2021, PFL on a consolidated basis, recorded a loss of Rs. 559 crore on asset base of Rs. 13,212 crore compared with a consolidated profit after tax of Rs. Rs. 27 crore on a total consolidated asset base of Rs. 15,240 crore in FY2020. The loss was primarily on account of management overlay provisions created in light of Covid wave 2 and adoption of a conservative write-off policy resulting in elevated credit cost for Q4FY2021. Post equity infusion of Rs 3,456 crore, net worth of the Company stood at Rs 5,722 crore, as on June 30, 2021.

In Q1FY2022, PFL on consolidated basis reported net profit of Rs. 65 crore. The gross and net stage 3 asset ratio stood at 5.4% and 2.7% respectively as on June 30, 2021, along with a healthy stage 3 provision cover of 51%.

## Key financial indicators (audited; consolidated)

| Poonawalla Fincorp Limited | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| Total income | 2,495 | 2,558 | 2,358 |
| Profit after tax | 304 | 27 | -559 |
| Total assets under management | 17,028 | 16,134 | 14,225 |
| Return on average assets | 1.8% | 0.2% | -3.9% |
| % Gross NPA | 4.8% | 6.4% | 3.7% |
| % Net NPA | 3.1% | 4.2% | 1.2% |

*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 FY2020 | | Date & Rating in FY2019 |
| | | | | | October 28, 2021 | November 26, 2020 | November 20, 2019^ | October 01, 2019* | - |
| 1 | MFL Securitisation Trust XCII | PTC Series A1 | 47.57 | 15.92 | [ICRA]AA(SO) | [ICRA]AA(SO) | [ICRA]AA(SO) | Provisional [ICRA]AA(SO) | - |
| | | PTC Series A2 | 1.47 | 0.49 | [ICRA]AA(SO) | [ICRA]AA(SO) | [ICRA]AA(SO) | Provisional [ICRA]AA(SO) | - |
| | | Second Loss Facility | 1.59 | 1.59 | [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

| Trust Name | Instrument | Complexity Indicator |
|---|---|---|
| MFL Securitisation Trust XCII | PTC Series A1 | Simple |
| | PTC Series A2 | Moderately Complex |
| | Second Loss Facility | Simple |

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: www.icra.in

## Annexure-1: Instrument details

<table>
<tr><th>Issue Name</th><th>Instrument Name</th><th>Date of Issuance / Sanction</th><th>Coupon Rate (p.a.p.m)</th><th>Maturity Date*</th><th>Amount Rated (Rs. Crore)</th><th>Current Rating</th></tr>
<tr><td rowspan="3">MFL Securitisation Trust XCII</td><td>PTC Series A1</td><td rowspan="3">September 2019</td><td>9.30%</td><td rowspan="3">September 2024</td><td>15.92</td><td>[ICRA]AA(SO)</td></tr>
<tr><td>PTC Series A2</td><td>N.A.</td><td>0.49</td><td>[ICRA]AA(SO)</td></tr>
<tr><td>Second Loss Facility</td><td>N.A.</td><td>1.59</td><td>[ICRA]BBB-(SO)</td></tr>
</table>

***Source:*** *Company*

** 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

**Palak Bhatt**
+91 22 6114 3400
palak.bhatt@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

## 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

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

## Branches