May 26, 2022

Poonawalla Fincorp Limited: Ratings reaffirmed for PTCs and SLF issued under two tractor loans securitisation transactions

Summary of rating action

Trust Name^	Instrument*	Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Apr-22 Payout (Rs. crore)	Rating Action
MFL Securitisation Trust LXXVII	PTC Series A1	159.67	52.37	19.35	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	8.40	2.76	1.02	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility (SLF)	8.82	8.82	6.87[1]	[ICRA]BBB-(SO); Reaffirmed
MFL Securitisation Trust XCIX	PTC Series A1	57.29	NA	31.69	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	3.66	NA	2.02	[ICRA]AA(SO); Reaffirmed
	Second Loss facility (SLF)	3.66	NA	3.66	[ICRA]BBB-(SO); Reaffirmed

^The trusts have been referred as LXXVII and XCIX in this release

**Instrument details are provided in Annexure-1*

Rationale

The pass-through certificates (PTCs) are backed by pools of tractor loan receivables originated by Poonawalla Fincorp Limited (PFL) (erstwhile Magma Fincorp Limited). The ratings reaffirmation takes into account the moderate to high amortisation in the transactions, 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 April 2022 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 pools till the April 2022 payouts has been provided below.

Parameter	LXXVII	XCIX
Months post securitisation	37	13
Pool amortisation (%)	86.12%	44.69%
Cumulative collection efficiency[2] (%)	95.19%	96.62%
Cumulative prepayment rate	15.09%	5.57%
Average monthly prepayment rate	0.44%	0.44%
Loss-cum-30+[3] (% of initial pool principal)	7.90%	6.06%
Loss-cum-90+ (% of initial pool principal)	4.14%	2.22%
Break-even collection efficiency: PTC	30.62%	74.33%
Break-even collection efficiency: SLF	55.28%	82.95%
Cumulative credit collateral (CC) utilisation	0.00%	0.00%
CC (as % of balance pool principal)	58.19%	18.08%

[1] *CC Reset was carried out in May-21. The CC reset was provided for the pool in Apr-21.*

[2] *Cumulative collections / (Cumulative billings + opening overdue at the time of securitization)*

[3] *Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal*

Parameter	LXXVII	XCIX
Excess interest spread (EIS) over balance tenure (as % of balance pool)	7.59%	12.45%

Key rating drivers

Credit strengths

- Healthy amortisation of PTCs resulting in build-up of credit collateral (CC) and excess interest spread (EIS) cover available for the balance PTC payouts;
- Healthy collection efficiency witnessed in the pools
- Low delinquency levels exhibited in the harder buckets for MFL XCIX pool

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 pools has been good with a cumulative collection efficiency of 95.19% and 96.62% for LXXVII and XCIX, respectively (till March 2022 collections). There has been no instance of CC utilisation owing to healthy collections in the pools. The shortfalls in the collections have been absorbed by the EIS in the structure. Both the pools have seen high amortization. Thus, the credit enhancement has built up considerably with respect to the balance pools principal.

The pools have exhibited rising delinquencies on account of lower collections during the second wave of the pandemic and also due to crop cycle linked cyclical nature of tractor loans collections. However, delinquencies in harder buckets are lower for both the pools with loss cum 90+ dpd being less than 4.50% and loss cum 180+ dpd being less than 2.5% after April 2022 payout. The balance pools have a moderate share of contracts with LTV greater than 80%. The performance of the pools would remain exposed to any fresh disruptions caused by the pandemic.

Overall, the credit enhancement available for meeting balance payouts to the investors is sufficient to reaffirm the rating at the current rating level in the transactions. ICRA will continue to monitor the performance of the transactions. Any further rating action will be based on the performance of the pools 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 pools (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 5.0% as on Apr-22 payouts. There has been nil CC utilization in live pools as on Apr-22 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 pools) and prepayments in the pools. 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 pools 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 pools contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the LXXVII & XCIX pool is estimated to be about 1.75% - 2.75% and 3.50% - 4.50%, respectively, with certain variability around it. The prepayment rate for the underlying pools 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 pools of contracts and the presence of CC available in the transaction amounting in the range of 18-58% of the balance pools principal amount. Assuming even 50% monthly collection efficiency in the underlying pools contracts in a stress scenario, the credit collateral would over seven months of PTC payouts in full.

Adequate for SLF

The cash flows from the pools 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 pools (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

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 March 31, 2022, Rising Sun Holdings Private Limited held 61.5% 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. 16,579 crore as on March 31, 2022 out of which AUM of discontinued products (new car, CV, CE, used CV/CE, tractor) is Rs. 2,974 crore.

In FY2022, PFL on a consolidated basis, recorded a loss of Rs. 375 crore on asset base of Rs. 16,579 crore compared with a consolidated loss of Rs. Rs. 559 crore on a total consolidated asset base of Rs. 14,225 crore in FY2021. 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 6,058 crore, as on March 31, 2022. The gross and net stage 3 asset ratio stood at 2.7% and 1.1% respectively as on March 31, 2022 along with a healthy stage 3 provision cover of ~59%.

Key financial indicators (audited; consolidated)

Poonawalla Fincorp Limited	FY2020	FY2021	FY2022
Total income	2,558	2,358	2,041
Profit after tax	27	-559	375
Total assets under management	16,134	14,225	16,579
% Gross Stage 3	6.4%	3.7%	2.7%
% Net Stage 3	4.2%	1.2%	1.1%

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

Sr. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Instrument name	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 26, 2022	May 03, 2021	June 25, 2020	June 05, 2019
1	MFL Securitisation Trust LXXVII	PTC Series A1	159.67	19.35	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)
		PTC Series A2	8.40	1.02	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)
		Second Loss Facility	8.82	6.87	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)

Sr. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Instrument name	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 26, 2022	May 13, 2021	March 31, 2021	-
2	MFL Securitisation Trust XCIX	PTC Series A1	57.29	31.69	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-
		PTC Series A2	3.66	2.02	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-
		Second Loss Facility	3.66	3.66	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)	-

Complexity level of the rated instrument

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

MFL Securitisation Trust XCIX	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

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	19.35	[ICRA]AA(SO)
	PTC Series A2		Residual		1.02	[ICRA]AA(SO)
	Second Loss Facility		-		6.87	[ICRA]BBB-(SO)
MFL Securitisation Trust XCIX	PTC Series A1	March 2021	6.00%	September 2025	31.69	[ICRA]AA(SO)
	PTC Series A2		Residual		2.02	[ICRA]AA(SO)
	Second Loss Facility		-		3.66	[ICRA]BBB-(SO)

Source: *Company*

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

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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