September 22, 2022

Poonawalla Fincorp Limited: Ratings upgraded for PTCs and SLF issued under tractor loans 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 Aug-22 Payout (Rs. crore)	Rating Action
MFL Securitisation Trust XCII	PTC Series A1	47.57	15.92	7.05	[ICRA]AAA(SO); Upgraded from [ICRA]AA(SO)
	PTC Series A2	1.47	0.49	0.22	[ICRA]AAA(SO); Upgraded from [ICRA]AA(SO)
	Second Loss Facility (SLF)	1.59	1.59	1.59	[ICRA]A+(SO); Upgraded from [ICRA]BBB-(SO)

**Instrument details are provided in Annexure-1*

Rationale

The pass-through certificates (PTCs) are backed by pool of tractor loan receivables originated by Poonawalla Fincorp Limited (PFL) (erstwhile Magma Fincorp Limited). The rating has been upgraded on account of high amortisation, which has led to the build-up of the credit enhancement (CE) 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 pool till the August 2022 payout month.

A summary of the performance of the pool till the August 2022 payout has been provided below.

Parameter	MFL Securitisation Trust XCII (XCII)
Months post securitisation	35
Pool amortisation (%)	83.04%
Cumulative collection efficiency[1] (%)	96.06%
Cumulative prepayment rate	18.85%
Average monthly prepayment rate	0.54%
Loss-cum-30+[2] (% of initial pool principal)	7.63%
Loss-cum-90+ (% of initial pool principal)	3.22%
Break-even collection efficiency: PTC	27.99%
Break-even collection efficiency: SLF	45.03%
Cumulative credit collateral (CC) utilisation	0.00%
CC (as % of balance pool principal)	60.45%
Excess interest spread (EIS) over balance tenure (as % of balance pool)	8.00%

[1] *Cumulative collections / (Cumulative billings + opening overdue at the time of securitization)*
[2] *Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal*

Key rating drivers

Credit strengths

- High 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 exhibited in the 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 pool has been healthy with the cumulative collection efficiencies upwards of 96.1%. The pool has amortized significantly by around 83% and the credit enhancement in this pool has been built up to around 60% in 35 months post securitization. As on Aug-22 payout, there is no CC utilisation and the breakeven collection efficiencies are well within the monthly collection efficiencies witnessed in the pool. Thus, the credit enhancement has built up considerably with respect to the balance pool principal.

The pool has 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 bucket are lower for the pool with loss cum 90+ dpd being less than 3.50% and loss cum 180+ dpd being less than 2.0% after August 2022 payout. The balance pool has a moderate share of contracts with LTV greater than 70%. 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 is sufficient to upgrade 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 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 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 94% and loss-cum-90+ dpd remaining below 4.0% as on Aug-22 payouts. There has been nil CC utilization in live pools as on Aug-22 payouts.

Key rating assumptions

ICRA's cash flow modelling for the 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 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 XCII pool is estimated to be about 1.75% - 2.75% with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 6.0% - 9.0% per annum.

Liquidity position

Superior 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 the balance tenure of the PTCs.

Strong for SLF

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

Rating sensitivities

Positive factors – The rating of SLF can be upgraded, provided the collections improve substantially to increase the 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 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	
					September 22, 2022	October 28, 2021	November 26, 2020	November 20, 2019^	October 01, 2019*
1	MFL Securitisation Trust XCII	PTC Series A1	47.57	7.05	[ICRA]AAA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)
		PTC Series A2	1.47	0.22	[ICRA]AAA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)
		Second Loss Facility	1.59	1.59	[ICRA]A+(SO)	[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

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 XCII	PTC Series A1	September 2019	9.30%	September 2024	7.05	[ICRA]AAA(SO)
	PTC Series A2		N.A.		0.22	[ICRA]AAA(SO)
	Second Loss Facility		N.A.		1.59	[ICRA]A+(SO)

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

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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