October 31, 2022

Poonawalla Fincorp Limited: Ratings reaffirmed for PTCs and SLF issued under a 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-22 Payout (Rs. crore)	Rating Action
MFL Securitisation Trust XCIX	PTC Series A1	57.29	31.69	22.00	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	3.66	2.02	1.40	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility (SLF)	3.66	3.66	3.66	[ICRA]BBB-(SO); Reaffirmed

**Instrument details are provided in Annexure I*

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 reaffirmation takes into account the healthy 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 a pool till the September 2022 payout month.

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

Parameter	MFL Securitisation Trust XCIX (XCIX)
Months post securitisation	18
Pool amortisation	61.60%
Cumulative collection efficiency[1]	94.70%
Average monthly prepayment rate	0.46%
Loss-cum-90+[2] **(% of initial pool principal)**	2.17%
Loss-cum-180+ (% of initial pool principal)	1.37%
Breakeven collection efficiency for PTCs	67.94%
Cumulative cash collateral (CC) utilisation	0.00%
CC (as % of balance pool principal)	
First Loss Facility (FLF)	10.42%
Second Loss Facility (SLF)	15.63%
Excess interest spread (EIS) over balance tenure (as % of balance pool)	11.34%

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

[2] *Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal*

Reset of credit enhancement

At the request of the originator for resetting the credit enhancement, ICRA has analysed the transaction at a CC of 16.10% of the balance pool principal (i.e. Rs 3.77 crore) against the currently available CC of 26.04% of the balance pool principal (after September 2022 payouts). Based on the pool's performance, the rating will remain unchanged even after the reset of the CC amount. The CC reset shall be subject to the 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 the current CC amount and the revised CC amount allowed by ICRA.

Key rating drivers

Credit strengths

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

Credit challenges

- Moderate share of high LTV contracts in the balance pool
- Performance of pool would remain vulnerable to agro-climatic risk that may impact the income-generating capability of the borrower
- Pool performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic

Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of more than 94%. The pool has amortised by 61.6% and the credit enhancement has built up considerably with respect to the balance pool principal.CC has built up to 26.1% of the balance pool in 18 months post securitisation. 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 exhibited rising delinquencies on account of lower collections during the second wave of the pandemic and also due to the crop-cycle-linked cyclical nature of tractor loan collections. However, delinquencies in the harder buckets are lower for the pool with a loss-cum-90+ days past due (dpd) of 2.2% and loss-cum-180+ dpd of 1.4% after the September 2022 payout. The balance pool has a moderate share of 36% of contracts with LTV of more 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 of the CC in the pool) is sufficient to reaffirm the ratings at the current ratings 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' expectations.

Performance of past rated pools

ICRA has ratings outstanding on three multi-asset loan pools (with commercial vehicles (CVs) and/or tractors as the underlying asset class) originated by PFL. The performance of the live pools has been healthy with a cumulative collection efficiency of more than 94% and loss-cum-90+ dpd of less than 4.0% as of the September 2022 payouts. There has been nil CC utilisation in the live pools as of the September 2022 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 previously 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 of contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the XCIX pool is estimated at 2.50% - 3.50% with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 3.0-9.0% 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 in the range of 26% of the balance pool principal amount. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover nine months of PTC payouts in full.

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 of contracts (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 originator

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 the controlling stake by the Adar Poonawalla-led Rising Sun Holdings Private Limited in May 2021, the company was renamed Poonawalla Fincorp Limited in July 2021. As on March 31, 2022, Rising Sun Holdings Private Limited held a 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.

On a consolidated basis, PFL's assets under management (AUM) stood at Rs. 16,579 crore as on March 31, 2022, including discontinued products (new car, CV, construction equipment, used CV/construction equipment, tractor) AUM of Rs. 2,974 crore.

On a consolidated basis, PFL recorded a loss of Rs. 375 crore in FY2022 on an asset base of Rs. 16,579 crore compared with a loss of Rs. 559 crore on a total asset base of Rs. 14,225 crore in FY2021. The loss was primarily on account of management overlay provisions created in light of the second wave of the pandemic and the adoption of a conservative write-off policy, resulting in elevated credit costs for Q4 FY2021. Post an equity infusion of Rs. 3,456 crore, the company's net worth stood at Rs. 6,058 crore as on March 31, 2022. The gross and net stage 3 asset ratios 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's calculations; 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
					October 31, 2022	May 26, 2022	May 13, 2021^	March 31, 2021*	-
1	MFL Securitisation Trust XCIX	PTC Series A1	57.29	22.00	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-
		PTC Series A2	3.66	1.40	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-
		Second Loss Facility	3.66	3.66	[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 XCIX	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 I: Instrument details

Trust 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	22.00	[ICRA]AA(SO)
	PTC Series A2		Residual		1.40	[ICRA]AA(SO)
	Second Loss Facility		NA		3.66	[ICRA]BBB-(SO)

Source: Company

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

Annexure II: 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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