October 27, 2023

# Poonawalla Fincorp Limited: Ratings upgraded 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-23 Payout (Rs. crore) | Rating Action |
|---|---|---|---|---|---|
| **MFL Securitisation Trust XCIX** | PTC Series A1 | 57.29 | 22.00 | 6.91 | [ICRA]AAA(SO); Upgraded from [ICRA]AA(SO) |
| | PTC Series A2 | 3.66 | 1.40 | 0.44 | [ICRA]AAA(SO); Upgraded from [ICRA]AA(SO) |
| | Second Loss Facility (SLF) | 3.66 | 3.66 | 3.66 | [ICRA]AA(SO); Upgraded from [ICRA]BBB-(SO) |

**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 upgrade takes into account of the high amortisation in the transaction, which has led to a significant 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 2023 payout month.

A summary of the performance of the pool till the September 2023 payout has been provided below.

| Parameter | MFL Securitisation Trust XCIX (XCIX) |
|---|---|
| **Months post securitisation** | 30 |
| **Pool amortisation** | 87.93% |
| **Cumulative collection efficiency**[1] | 94.08% |
| **Average monthly prepayment rate** | 0.37% |
| **Loss-cum-90+**[2] **(% of initial pool principal)** | 3.41% |
| **Loss-cum-180+ (% of initial pool principal)** | 1.94% |
| **Breakeven collection efficiency for PTCs** | 18.58% |
| **Cumulative credit collateral (CC) utilisation** | 0.00% |
| **CC (as % of balance pool principal)** | |
| **First Loss Facility (FLF)** | 33.15% |
| **Second Loss Facility (SLF)** | 49.72% |
| **Excess interest spread (EIS) over balance tenure (as % of balance pool)** | 7.80% |

[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*

## Key rating drivers

### Credit strengths

- High amortisation of pool resulting in significant build-up of credit enhancement cover available for the balance PTC payouts.
- Healthy collections observed in the pool.

### Credit challenges

- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any.

## Description of key rating drivers highlighted above

The performance of the pool has been moderately healthy with a cumulative collection efficiency of more than 94%. The pool has amortised by 87.9% and the credit enhancement has built up considerably with respect to the balance pool principal. CC has built up to 82.9% of the balance pool in 30 months post securitisation[3]. 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.

The pool has exhibited higher delinquencies and volatile collections 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 3.4% and loss-cum-180+ dpd of 1.9% after the September 2023 payout. The prepayment rate has been low with average monthly prepayment rate of ~0.4%. 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 macroeconomic shocks/business disruptions, if any.

Overall, the credit enhancement available for meeting balance payouts to the investors is sufficient to upgrade the ratings from the current rating level in the transactions. 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 one pool with tractor as the underlying asset class) originated by PFL. All other rated pools have matured as on September 2023 payout.

## 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 1.00% -2.00% 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.

[3] *During the previous surveillance at the request of the originator CC reset was provided, however the CC reset was not carried out by the originator.*

## Liquidity position

**Superior for PTCs**

The liquidity is expected to be superior supported by the collections from the pool of contracts and the presence of CC available in the transaction amounting in the range of 83% 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 the entire payouts.

**Strong 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** – Not applicable for PTCs. SLF is likely to be upgraded once FLF fully covers the future PTC cashflows.

**Negative factors** – The ratings could be downgraded on the sustained weak collection performance of the underlying pool of contracts, leading to high delinquency levels, and a decrease in the cover available for future PTC payouts from the credit enhancement.

## 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 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 standalone basis had Assets under Management (AUM) of Rs. 16,143 crore as on March 31, 2023 out of which AUM of discontinued products (new car, CV, CE, used CV/CE, tractor) is Rs. 945 crore.

In FY2023, PFL on a standalone basis, recorded a profit of Rs. 585 crore on AUM of Rs. 16,143 crore compared with a standalone profit of Rs. Rs. 293 crore on a total AUM of Rs. 11,765 crore in FY2021. The gross and net stage 3 asset ratio stood at 1.4% and 0.8% respectively as on March 31, 2023 vs a gross and net stage 3 of 3.3% and 1.3% respectively as on March 31, 2022.

### Key financial indicators (audited; standalone)

| Poonawalla Fincorp Limited | FY2022 | FY2023 |
|---|---|---|
| Total income | 1,567 | 2,010 |
| Profit after tax | 293 | 585 |
| Total assets under management | 11,765 | 16,143 |
| % Gross stage 3 | 3.3% | 1.4% |
| % Net stage 3 | 1.3% | 0.8% |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

<table>
<tr><th rowspan="3">Sr. No.</th><th rowspan="3">Trust Name</th><th colspan="4">Current Rating (FY2024)</th><th colspan="4">Chronology of Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Instrument Name</th><th rowspan="2">Initial Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding (Rs. crore)</th><th>Date & Rating</th><th colspan="2">Date & Rating in FY2023</th><th>Date & Rating in FY2022</th><th>Date & Rating in FY2021</th></tr>
<tr><th>October 27, 2023</th><th>October 31, 2022</th><th>May 26, 2022</th><th>May 13, 2021^</th><th>March 31, 2021*</th></tr>
<tr><td rowspan="3">1</td><td rowspan="3">MFL Securitisation Trust XCIX</td><td>PTC Series A1</td><td>57.29</td><td>6.91</td><td>[ICRA]AAA(SO)</td><td>[ICRA]AA(SO)</td><td>[ICRA]AA(SO)</td><td>[ICRA]AA(SO)</td><td>Provisional [ICRA]AA(SO)</td></tr>
<tr><td>PTC Series A2</td><td>3.66</td><td>0.44</td><td>[ICRA]AAA(SO)</td><td>[ICRA]AA(SO)</td><td>[ICRA]AA(SO)</td><td>[ICRA]AA(SO)</td><td>Provisional [ICRA]AA(SO)</td></tr>
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** 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: Click Here

## 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 | 6.91 | [ICRA]AAA(SO) |
| | PTC Series A2 | | Residual | | 0.44 | [ICRA]AAA(SO) |
| | Second Loss Facility | | NA | | 3.66 | [ICRA]AA(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

## ICRA Limited

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