January 31, 2025

Muthoot Microfin Limited: Rating confirmed as final for PTCs backed by microfinance loan receivables issued by 2024 MFI Alborz

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
2024 MFI Alborz	PTC Series A1	175.31	[ICRA]AA+(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In December 2024, ICRA had assigned Provisional [ICRA]AA+(SO) rating to Pass Through Certificate (PTC) Series A1, issued by 2024 MFI Alborz. The PTCs are backed by a pool of a microfinance loan receivables originated by Muthoot Microfin Limited (MML/Originator) with an aggregate principal outstanding of Rs. 205.05 crore (pool receivables of Rs 241.44 crore)

Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final. MML is the servicer for the rated transaction.

Pool performance summary

Parameter	2024 MFI Alborz
Payout month	January 2025
Months post securitisation	2
Pool amortisation	16.46%
PTC Series A1 amortisation	19.25%
Cumulative prepayment rate	3.26%
Cumulative collection efficiency	99.15%
Loss cum 0+ dpd	3.22%
Loss cum 30+ dpd	0.42%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The residual cash flows from the pool, after meeting the promised and expected payouts, will be flow back to the originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of the PTC Series A1 principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal, amounting to Rs. 10.25 crore, to be provided by the Originator, (ii) principal subordination of 14.50% of the initial pool principal for PTC Series A1 and (iii) the excess interest spread (EIS) of 13.54% of the initial pool principal for PTC Series A1.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 49,972 obligors, with no contract exceeding 0.01% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit

enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there are no overdue contracts.

Seasoned contracts in the pool – The pool has amortised by almost 29% as on the cut-off date with no delinquencies seen in any of the contracts, post loan disbursement, thereby reflecting the borrowers' relatively better credit profile.

Adequate servicing capability of the originator – The company has adequate processes for servicing of the loan accounts in the securitised pool. It has a demonstrated track record of over a decade of regular collections and recovery across multiple geographies.

Credit challenges

High geographical concentration- The pool has high geographical concentration with the top 3 states, viz. Kerala ,Tamil Nadu and Odisha contributing ~80% to the initial pool principal. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Risks associated with lending business – The pool performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The performance of microfinance loans would also be exposed to political and communal risks.

Increasing delinquencies in microfinance sector – The microfinance sector has seen a decline in collections and consequently rise in delinquencies in the current fiscal on account of multiple factors like heat wave, general elections, borrower overleveraging and attrition in collection teams. Any sustained impact of these factors on the collections from the pool would be a monitorable.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.50% of the pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 3% to 9% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	2024 MFI Alborz
Originator	Muthoot Microfin Limited
Servicer	Muthoot Microfin Limited
Trustee	Axis Trustee Services Limited
CC holding bank	Axis Bank Limited
Collection and payout account Bank	Axis Bank Limited

Liquidity position: Superior

The liquidity for PTC Series A1 is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is 6.25 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (MML) could also exert pressure on the rating.

Analytical approach

The rating action is based on the Trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

Muthoot Microfin Limited (MML) is part of the Muthoot Pappachan Group. The Muthoot Pappachan Group is highly diversified, having its presence in Financial Services, Insurance & Broking services, Precious Metals, Automotive, Hospitality, Real Estate, IT Infrastructure, Alternate Energy, Health Care & IT. The company entered into the business of microfinance in the year 2010, as a division of Muthoot Fincorp Ltd. The product was named as Muthoot Mahila Mitra. The first branch of Muthoot Microfin was opened in Choolaimedu (Chennai), Tamil Nadu in March 2010. The company operates with the concept of Joint Liability Groups (JLG) or Group Guarantee. In the past few years the company has grown its presence on a pan India level and is presently operating across 19 states.

Key financial indicators

Particular	FY2022 (Audited)	FY2023 (Audited)	FY2024 (Audited)
Total Income	842.9	1,446.3	2,285.5
Profit after Tax	47.4	163.9	449.6
Assets under Management	6,234	9,088	12,193
Gross Stage 3	6.3%	3.0%	2.3%
CRAR	28.8%	21.9%	29.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. Crore;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
	Instrument	Amount Rated (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			January 31, 2025	December 02, 2024	-	-	-
2024 MFI Alborz	PTC Series A1	175.31	**[ICRA]AA+(SO)**	**Provisional [ICRA]AA+(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex

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	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
2024 MFI Alborz	PTC Series A1	November 29, 2024	8.70%	July 12, 2026	175.31	[ICRA]AA+(SO)

Source: Company

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.

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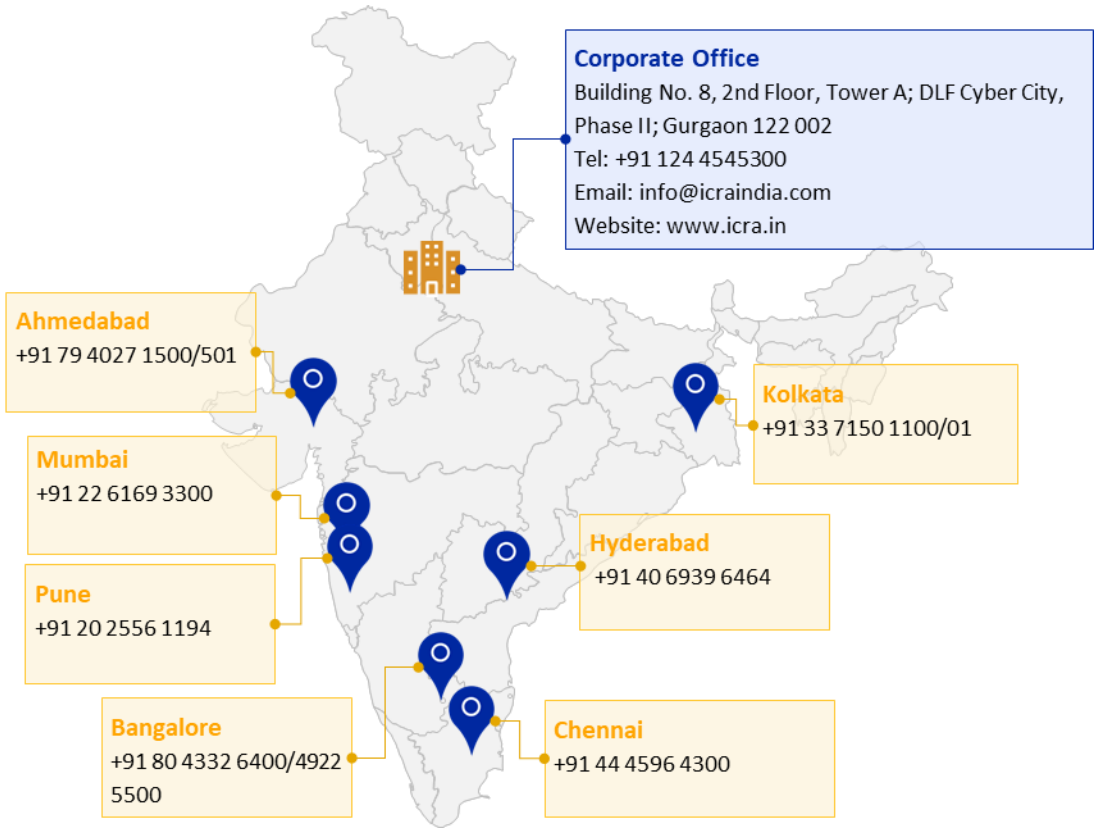

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