November 04, 2026

Muthoot Fincorp Limited: Provisional [ICRA]AA+(SO) assigned to PTC Series A1 and Provisional [ICRA]AA-(SO) assigned to Equity PTC issued by Delta 5, backed by a pool of unsecured QR code-based merchant loans

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action	Financial sector regulator#
Delta 5	PTC Series A1	49.28	Provisional [ICRA]AA+(SO); Assigned	RBI
	Equity PTC	2.92	Provisional [ICRA]AA-(SO); Assigned	RBI

**Instrument details are provided in Annexure I*

#SEBI's grievance redressal/dispute resolution and SEBI investor protection mechanisms such as SCORES and ODR shall not be available for activities and instruments which fall under the regulatory purview of Financial Sector Regulators other than SEBI.

Rating in the absence of pending actions/documents	No ratings would have been assigned as it would not be meaningful

Rationale

The Pass-through certificates (PTCs) are backed by a pool of unsecured QR code-based merchant loan receivables originated by Muthoot Fincorp Limited {MFL/Originator} with an aggregate principal outstanding of Rs. 58.32 crore (pool receivables of Rs. 70.26 crore). MFL would be acting as the servicer for the transaction.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The provisional ratings are subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A1. 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. All prepayment amounts would be passed on to PTC Series A1 (till the PTC Series A1 principal is not fully amortized) every month and its future payouts revised accordingly. The excess interest spread (EIS) available after meeting the expected and promised PTC payments will be passed on to originator (in case there are no EIS trigger events). In case of an EIS trigger event, the entire EIS available will be used for accelerated redemption of PTC Series A1. Equity Tranche is subordinated to PTC Series A1 and entire principal on equity tranche PTC is promised on maturity date. The legal final maturity date for all series of PTC is August 22, 2028.

The credit enhancement available in the structure is in the form of cash collateral of 5.00% of the initial pool principal (Rs. 2.92 crore to be provided by the Originator) (ii) principal subordination of 15.50% of the initial pool principal for PTC Series A1 (split into 10.50% of overcollateral and 5.00% of equity tranche) and subordination of 10.50% of the pool principal for Equity PTC, (iii) the excess interest spread (EIS) of 14.98% of the initial pool principal for PTC Series A1 and Equity PTC.

Key rating drivers

Credit strengths

Granular pool supported by availability of credit enhancement – The pool is granular, consisting of 2,786 obligors, with the top 10 obligors accounting for ~1% of the pool principal as on the cut-off date, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, overcollateral and EIS would absorb a part of the losses in the pool and provide support in meeting the PTC payouts.

Seasoned contracts in the pool – The pool has an average seasoning of ~4 months on the cut-off date. This reflects the repayment track record and buildup in borrower equity which is a credit positive.

Credit challenges

Risks associated with lending business – The pool's 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 pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recovery from delinquent contracts tends to be lower.

Exposed to interest rate risk – The transaction is exposed to interest rate risk as the underlying pool has fixed rate loans while the yield on the PTC Series A1 is floating (linked to repo rate).

Lower track record of originator – The originator has lower track record for servicing the loan accounts in the unsecured QR code based merchant loans segment. The majority of book building has happened in last one year and portfolio has lower seasoning with delinquencies in portfolio yet to stabilise.

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 5.75% of the pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 5% to 18% 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.

Liquidity position: Strong

The liquidity for PTC Series A1 and Equity PTC is strong after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement would be more than 5.00 times and 4.00 times the estimated loss in the pool for PTC Series A1 and Equity PTC respectively.

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 ratings upgrade.

Negative factors – The sustained weak collection performance of the underlying pool (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 (Muthoot Fincorp) could also exert pressure on the ratings.

Analytical approach

The rating action is based on the analysis of the performance of MFL's unsecured QR code-based merchant loan portfolio till September 2026, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool and the credit enhancement cover available in the transaction.

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

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust Deed
2. Assignment Agreement
3. Power of Attorney
4. Legal Opinion
5. Trustee Letter
6. Other key or important documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

Muthoot Fincorp Limited (MFL**)** is a Thiruvananthapuram-based non-deposit-taking NBFC and part of the Muthoot Pappachan Group. Established in 1997, the company initially focused on gold loans, providing small-ticket secured credit to customers in semi-urban and rural markets. Over the years, MFL has diversified its offerings to include business loans, loans against property, supply-chain finance, and personal loans through its Secured & Unsecured Lending Business (SULB) division. The company also distributes mutual funds and general and life insurance products and operates in the money transfer segment and foreign exchanges through its branches.

Key financial indicators

	FY2024	FY2025	FY2026
	Audited	Audited	Audited
Total Income	4,016	5,551	8,364

Profit after tax	563	787	1,640
Total managed assets	22,887	33,563	57,581
Gross NPA (%)	1.6%	2.0%	1.0%
Capital to risk weighted assets ratio (%)	20.0%	19.5%	18.0%

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

Trust Name	Current Rating (FY2027)			Chronology of Rating History for the Past 3 Years		
	Instrument	Amount Rated (Rs. crore)	Date & Rating in FY2027	Date & Rating in FY2026	Date & Rating in FY2025	Date & Rating in FY2024
			November 04, 2026	-	-	-
Delta 5	PTC Series A1	49.28	**Provisional [ICRA]AA+(SO)**	-	-	-
	Equity PTC	2.92	**Provisional [ICRA]AA-(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Highly Complex
Equity PTC	Highly 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 Name	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating	Financial sector regulator#
Delta 5	PTC Series A1	October 30, 2026	-	August 22, 2028	49.28	Provisional [ICRA]AA+(SO)	RBI
	Equity PTC	October 30, 2026	-	August 22, 2028	2.92	Provisional [ICRA]AA-(SO)	RBI

Source: Company

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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.

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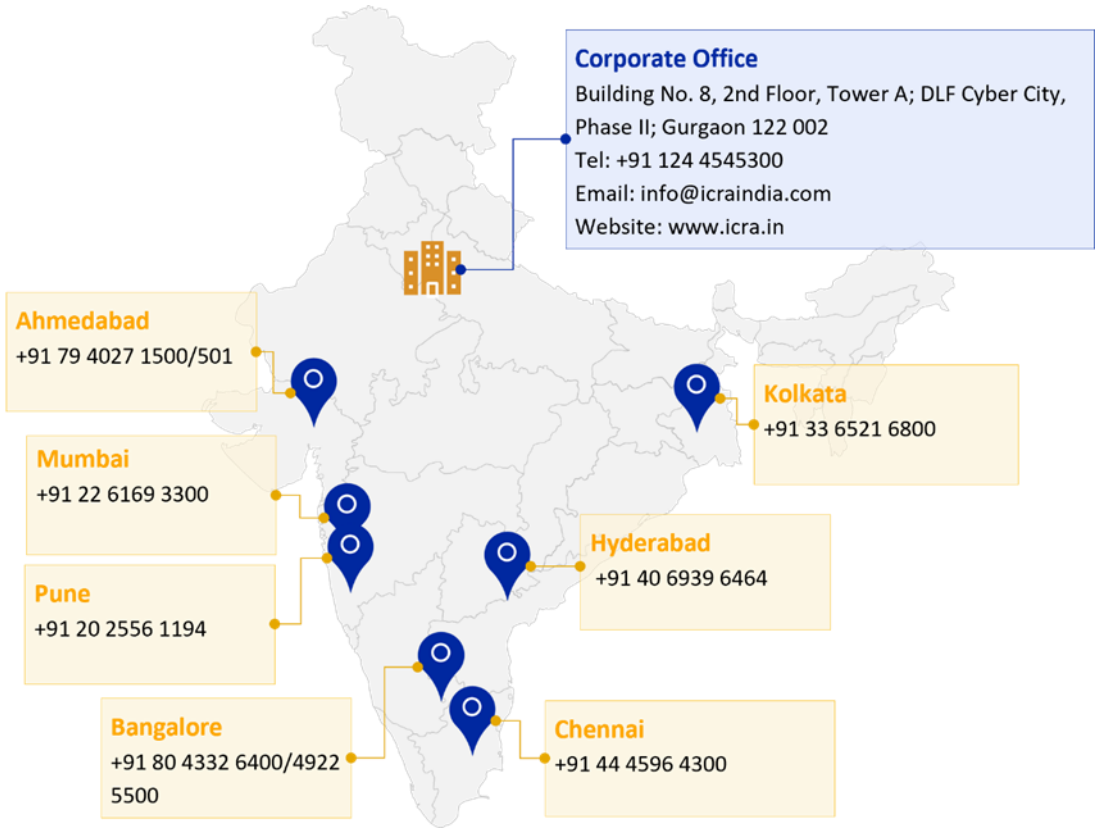

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