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Manba Finance Limited: Provisional [ICRA]A(SO)/Provisional [ICRA]BBB+(SO) ratings assigned to PTCs issued under two-wheeler loan securitisation transaction – Northern ARC 2019 2W Galadriel

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Northern ARC 2019 2W Galadriel	PTC Series A1	20.02	Provisional [ICRA]A(SO) assigned
	PTC Series A2	0.69	Provisional [ICRA]BBB+(SO) assigned

**Instrument details are provided in Annexure-1*

Rationale

ICRA has assigned a Provisional [ICRA]A(SO) rating to PTC Series A1 and a Provisional [ICRA]BBB+(SO) rating to PTC Series A2 under a securitisation transaction originated by Manba Finance Limited. The pass-through certificates (PTCs) are backed by a pool of Rs. 28.69-crore micro loan receivables (underlying pool principal of Rs. 23.01 crore).

The provisional ratings are based on the strength of the cash flows from the selected pools of contracts, the credit enhancement available in the form of (i) a cash collateral of 4.50% of the pool principal to be provided by the Originator, (ii) subordination of 13.00% of the pool principal for PTC Series A1 and 10.00% for PTC Series A2, and (iii) the excess interest spread (EIS) in the structure. The provisional ratings also factor in the integrity of the legal structure. The provisional ratings are subject to the fulfilment of all the conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- First line of support available through subordination of 13.00% and 10.00% of pool principal for PTC Series A1 and A2, respectively
- Further credit support available through subordination of EIS amounting to 15.75% of the pool principal amount for PTC Series A1 and 14.87% for PTC Series A2, followed by a credit collateral (CC) equivalent to 4.50% of the initial pool principal amount

Credit challenges

- High state-level concentration in the pool with a single state contributing to 98% of the pool principal
- Moderate weighted average seasoning of ~7 months

Description of key rating drivers highlighted above

The first line of support is available for the transaction through the subordination of 13.00% of the pool principal (includes principal payable to PTC Series A2 and over collateralisation). After PTC Series A1 has been fully paid, a subordination of 10.00% of the pool principal will be available for PTC Series A2. Further credit support is available through the subordination of an EIS amounting to 15.75% of the pool principal amount for PTC Series A1 and 14.87% of the pool principal amount for PTC Series A2. An important feature of the structure in this transaction is that any collection in excess of the promised interest payouts to PTC Series A1 would be first utilised for the payment of the expected principal of PTC Series A1 and then for the expected interest payouts to PTC Series A2. After PTC Series A1 is completely amortised, the same would be utilised for the payment of the promised interest and expected principal to PTC Series A2.

A cash collateral of 4.50% of the initial pool principal provided by Manba acts as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the cash collateral to meet the shortfall. Additionally, the EIS available in the structure will provide credit enhancement support.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that are moderately seasoned with a weighted average seasoning of ~7 months. The contracts have an average loan-to-value (LTV) of 82%, which is in line with industry standards.

Key rating assumptions

ICRA's cash flow modelling for rating ABS transactions involves the simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for the mean shortfall and coefficient of variation (CoV) are arrived at on the basis of the values observed in the analysis of the Originator's loan portfolio. Additionally, the assumptions may be adjusted to account for the prevalent macroeconomic situation as well as any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be 7.0-8.0%, 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 for PTC Series A1: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC Series A1 investors.

Liquidity position for PTC Series A2: Adequate

As per the transaction structure, after PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be adequate to meet the promised payouts to PTC Series A2 investors.

Performance of past rated pools: ICRA has ratings outstanding on one PTC transaction of Manba rated in January 2019. The performance of the pool has been good with the collection efficiency standing above 95% and the 0+dpd being less than 2% after the July 2019 payouts.

Rating sensitivities

Positive triggers – The ratings could be upgraded on sustained strong collection performance of the underlying pool (Monthly collection efficiency > 93%) leading to build up of cover from the credit enhancement to around 50% of the pool principal.

Negative triggers – Pressure on the ratings could emerge on sustained weak collection performance of the underlying pool (Monthly collection efficiency < 90%) leading to higher than expected delinquency levels and CE utilization levels.

Analytical approach

The rating action is based on the analysis of the past performance of Manba's portfolio till June 2019, performance of previously rated ICRA pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

Manba Finance Limited was incorporated in 1996 and is registered with the Reserve Bank of India as a non-deposit taking non-banking financial company (NBFC). Headquartered in Mumbai, Mulund West, the company has more than 300 empanelled dealers and approximately 200+ employees.

Manba provides two-wheeler (2W) finance in Mumbai and its surrounding regions. The company is fully owned (through individual capacity and through group companies/relatives) by Mr. Manish Shah, who is the promoter and Managing Director of the company.

In FY2018, Manba posted a net profit of Rs. 8.23 crore on an operating income of Rs. 37.53 crore compared to a net profit of Rs. 6.33 crore on an operating income of Rs. 29.84 crore in FY2017.

Key financial indicators

	FY2017	FY2018	Q1 FY2019
Net worth	49.74	79.96	83.55
Net interest income	29.84	37.53	11.94
Profit before tax	9.58	12.02	5.03
Profit after tax	6.33	8.23	3.59
Portfolio	191.23	290.58	334.84
Gearing	3.15	2.87	3.17
% Net profit/Average total assets	3.09%	2.94%	4.07%
% Return on net worth	13.58%	12.69%	17.54%
% Gross NPAs	0.83%	1.06%	NA
% Net NPAs	0.10%	0.95%	NA

Amount in Rs. crore; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					03- October 2019	-	-	-
1	Northern ARC 2019 2W Galadriel	PTC Series A1	20.02	20.02	Provisional [ICRA]A(SO)	-	-	-
		PTC Series A2	0.69	0.69	Provisional [ICRA]BBB+(SO)			

Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Northern ARC 2019 2W Galadriel	PTC Series A1	September 2019	11.50%	March 2022	20.02	Provisional [ICRA]A(SO)
	PTC Series A2		15.00%		0.69	Provisional [ICRA]BBB+(SO)

** Scheduled maturity and average life at transaction initiation; may change on account of prepayment*

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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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