February 12, 2020

Fusion Microfinance (Pvt.) Ltd.: Ratings confirmed for pass through certificates (PTCs) issued under a micro loan receivables securitisation transaction, as final

Summary of rating actions

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating action
Northern Arc 2019 MFI Ithaca	PTC Series A1	53.39	Provisional [ICRA]A(SO) confirmed as final
	PTC Series A2	3.03	Provisional [ICRA]BBB+(SO) confirmed as final

**Instrument details are provided in Annexure I*

Rationale

ICRA has confirmed the provisional ratings to PTCs issued under by Northern Arc 2019 MFI Ithaca trust as final, as tabulated above. The PTCs are backed by a Rs. 60.66 crore (principal outstanding) pool of micro loans originated by Fusion Microfinance (Pvt.) Ltd. (Fusion).

In December 2019, ICRA had assigned Provisional [ICRA]A(SO) [pronounced Provisional ICRA A (Structured Obligation)] rating to PTC Series A1 and Provisional [ICRA]BBB+(SO) [pronounced Provisional ICRA Triple B plus (Structured Obligation)] rating to PTC Series A2, issued by Northern Arc 2019 MFI Ithaca trust. Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit Strengths

- First line of support available for the transaction through subordination of 12.00% and 7.00% of the pool principal for PTC Series A1 and A2, respectively
- Further credit support available through subordination of EIS amounting to 5.42% of the pool principal amount for PTC Series A1 and 4.90% for PTC Series A2, followed by a cash collateral (CC) in the transaction
- High seasoning and pre-securitisation amortisation in the pool
- Underlying contracts in the pool are current as on cut-off date

Credit Challenges

- Moderately high state-wise geographical concentration
- Performance of pool would remain vulnerable to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; pool performance would also be exposed to political and communal risks

Description of key rating drivers highlighted above:

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 12.00% 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 7.00% of the pool principal will be available for PTC Series A2. The transaction is structured such 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. Additionally, the EIS available in the structure will provide credit enhancement support.

Further credit support is available through a CC equivalent to 5.00% of the initial pool principal amount (Rs. 3.03 crore). The CC will be in the form of a fixed deposit from Fusion, maintained with a bank. In case of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that are highly seasoned with weighted average seasoning of 64.3 weeks and pre-securitisation amortisation of around 66.8%. The geographical concentration of the loan contracts in the current pool is moderately high with the top three states and the top 10 districts constituting 96.7% and 39.8% of the pool principal, respectively.

Past rated pool performance: ICRA has thus far rated 10 pools backed by micro loan receivables originated by Fusion and had ratings outstanding on six other pools as on December 31, 2019. The performance of all the outstanding pools is characterised by high cumulative collection ratios of more than 95.8% and low delinquency levels.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed security (ABS) transactions involves the simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for the mean shortfall and co-efficient of variation (CoV) are based on the values observed in the analysis of the originator's loan portfolio. The assumptions may also be adjusted to account for the current 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 4.0-5.0%, with some variability. The prepayment rate for the underlying pool is estimated to be in the range of 6.0-10.0% per annum.

Liquidity Position

PTC Series A1: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A1 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.

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.

Rating sensitivities

Positive triggers – The ratings could be upgraded on the sustained strong collection performance of the underlying pool contracts (monthly collection efficiency >95%) leading to low delinquency levels and build-up of cover from the credit enhancement to around 98% of the balance pool principal.

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

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 Company:

Fusion is a Delhi-based microfinance institution, which commenced operations in 2010. As on December 30, 2019, Fusion's operations were spread across 536 branches (excluding 16 BC outlets) in 18 states/Union Territories. Fusion has a proven track record in the microfinance segment with an overall portfolio base of Rs. 3,060 crore as on September 30, 2019. The six states of Bihar, Uttar Pradesh, Odisha, Madhya Pradesh, Punjab and Haryana accounted for 77% of the portfolio as on September 30, 2019.

Key financial indicators

	FY2018	FY2019
Net Interest Income	102.96	213.15
Profit before Tax	(53.60)	88.22
Profit after Tax	(39.41)	65.35
Gross Advances (on book)	1,322.69	2,341.83
Gross Advances (including off book)	1,555.60	2,641.39
Total Managed Assets	2,031.30	3,708.53
% Tier 1	15.14%	23.36%
% CRAR	21.87%	27.33%
Gearing^ (owned)	6.31	4.29
% Net Profit / Average Managed Assets	-2.31%	2.25%
% Return on Net Worth	-16.41%	14.85%
% Gross NPA (owned)	3.98%	1.41%
% Net NPA (owned)	0.00%	0.00%
Net NPA / Net Worth	0.00%	0.00%

Amounts in Rs. Crore. Source: ICRA research and company

** With RBI dispensation*

^*Gearing calculation includes interest accrued but not due in the numerator and the net worth number excludes preference share capital which is considered as debt*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

S.No	Instrument	Current Rating					Chronology of Rating History for the past 3 years		
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					12-Feb-20	11-Dec-19	-	-	-
1	Northern Arc 2019 MFI Ithaca	PTC Series A1	53.39	53.39	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-	-
		PTC Series A2	3.03	3.03	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-	-

Complexity level of the rated instrument:

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 MFI Ithaca	PTC Series A1	Nov 2019	9.10%	January 2021	53.39	[ICRA]A(SO)
	PTC Series A2	Nov 2019	15.50%	January 2021	3.03	[ICRA]BBB+(SO)

 # Calculated on XIRR basis
** Scheduled maturity and average life at transaction initiation; may change on account of prepayments in the underlying pool*

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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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