June 12, 2020

Manappuram Finance Limited: ICRA confirms ratings assigned to PTCs issued under a two-wheeler loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Vivriti Minotaur 12 2019	Series A1 PTC	42.65	Provisional rating [ICRA]AAA(SO); confirmed as final

**Instrument details are provided in Annexure-I*

Rationale

ICRA has confirmed the provisional rating assigned to the pass-through certificates (PTCs) backed by a pool of Rs. 56.18 crore two-wheeler loan receivables (underlying pool principal of Rs. 48.47 crore) originated by Manappuram Finance Limited.

In January 2020, ICRA had assigned Provisional [ICRA]AAA(SO) rating to PTC Series A1 issued by Vivriti Minotaur 12 2019. 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

- Availability of credit enhancement in the form of excess interest spread (EIS), over-collateralisation and cash collateral (CC)
- Absence of overdue contracts as on pool cut-off date
- Majority portion of the contracts in the pool has LTV lower than 80%, which is performing better in the portfolio
- Pool has moderately high seasoning profile

Credit challenges

- Moderate geographical concentration of the contracts in the pool at the state level
- Uncertainty arising from the nationwide lockdown due to Covid-19 pandemic may lead to near-term stress on pool performance

Description of key rating drivers highlighted above

The first line of support for Series A1 PTC in the transaction is in the form of a subordination of 12.00% of the pool principal. The transaction is structured such that any collection in respect of the principal amount billed and prepayments would be utilised for the payment of the expected principal of Series A1 PTC. Additionally, the EIS available in the structure will provide credit enhancement support.

Further credit support is available through a CC equivalent to 7.00% of the initial pool principal amount (Rs. 3.39 crore). The CC will be in the form of a fixed deposit from MFL, 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 were no overdues in the pool as on the cut-off date of November 30, 2019. The pool consists of loans with a moderately high seasoning profile, with a weighted average seasoning of 11.0 months. The geographical concentration of the loan contracts in the current pool is moderate with the top three states constituting 58.9% of the pool principal.

ICRA notes that the PTC investor in the transaction has provided approval for extension of moratorium for underlying contracts for three months (March, April and May 2020 collections) in line with the 'Covid-19 Regulatory Package' announced by the Reserve Bank of India (RBI) on March 27, 2020. Further, as per the investor approvals, the credit enhancement available would not be used for meeting promised investor payouts during April - June 2020 payouts. Any collection during the moratorium period to be transferred to the trustee and would be appropriated first to accrued interest and then to principal payable to the investor. The EIS collected during this period would be held in trust account for meeting future shortfall (if any).

Past rated pool performance: This is the first MFL originated transaction backed by two-wheeler loan receivables, being rated by ICRA.

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 5.0-6.0%, with some variability. The prepayment rate for the underlying pool is estimated to be in the range of 6.0-9.0% per annum.

Liquidity position

PTC Series A1: Superior

As per the transaction structure, only the interest amount is promised to the Series A1 PTC holders monthly 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 highly comfortable to meet the promised payouts to Series A1 PTC investors.

Rating sensitivities

Positive triggers – Not applicable.

Negative triggers – The sustained weak collection performance of the underlying pool (monthly collection efficiency of <95%), leading to higher-than-expected delinquency levels and credit enhancement (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

Thrissur (Kerala)-based Manappuram Finance Limited, the flagship company of the Manappuram Group, is a non-deposit taking, systemically important non-banking finance company (ND-NBFC-SI), which primarily lends against gold ornaments. As on March 31, 2020, it had 4,622 branches across India with an active customer base at 5.14mn. The company went public in August 1995. Over the years, the Group has diversified into other businesses such as home loans, microfinance, vehicle and equipment finance, SME finance and insurance broking. The overall assets under management (AUM) stood at Rs. 25,225 crore as on March 31, 2020, including gold loans (67%), microfinance (22%), vehicle and equipment finance (5%), housing (3%), and other businesses. The gold loan business is diversified across 3,529 branches in 28 states and Union Territories (UTs) while the microfinance business (Asirvad) is spread across 1042 branches in 23 states and UTs. The vehicle and equipment finance business are spread across 222 branches in 22 states and the housing finance business is spread across 47 branches in 9 states. For FY2020, the consolidated profit after tax (PAT) was Rs. 1,402 crore on total income of Rs. 5,551 crore compared to PAT of Rs. 920 crore on total income of Rs. 4,165 crore for FY2019.

Key financial indicators (audited)

	Standalone			Consolidated		
	FY2018	FY2019	FY2020	FY2018	FY2019	FY2020
Total Income	2,953	3,427	4,352	3,476	4,165	5,551
Adjusted Profit after Tax**	690	790	1,170	676	920	1,402
Net Worth	3,813	4,392	5,356	3,813	4,525	5,746
Total Managed Portfolio	12,481	15,005	18,842	15,244	17,812	23,192
Total Managed Assets	14,593	17,646	23,802	17,030	20,454	28,951
Return on Average Managed Assets (%)	5.0%	4.9%	5.6%	4.2%	5.0%	6.8%
Return on Average Net Worth (%)	19.4%	19.3%	24.0%	18.7%	22.1%	27.3%
Gross NPA %	0.7%	0.6%	0.9%	-	-	-
Net NPA %	0.3%	0.3%	0.5%	-	-	-
Net NPA / Net Worth	1.0%	1.0%	1.8%	-	-	-
% CRAR	27.0%	23.8%	23.4%	-	-	-

Note: Amount in Rs. crore

** Information available as per financial statements prepared under Ind-AS*

*** After minority interest and excluding a Rs. 60.15-crore one-time benefit arising from rent reversal after adopting Ind-AS 116* in *FY 2020 Source: MAFIL's financial statements, ICRA research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

<table>
<tr><th rowspan="3">S. No</th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2021)</th><th colspan="3">Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Rated Amount</th><th rowspan="2">Amount Outstanding</th><th>Rating</th><th>FY2020</th><th>FY2019</th><th>FY2018</th></tr>
<tr><th>12-June-2020</th><th>07-Jan-2020</th><th>-</th><th>-</th></tr>
<tr><td>1</td><td>Vivriti Minotaur 12 2019</td><td>Series A1 PTC</td><td>42.65</td><td>42.65</td><td>[ICRA]AAA (SO)</td><td>Provisional [ICRA]AAA(SO)</td><td>-</td><td>-</td></tr>
</table>

Amount in Rs. crore

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
Vivriti Minotaur 12 2019	Series A1 PTC	Dec 2019	9.25%	Mar 2024	42.65	[ICRA]AAA(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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