June 29, 2020

AU Small Finance Bank Limited: Ratings reaffirmed for PTCs, SLF and LF issued under MSME loan securitisation transaction

Summary of rating action

Sr. no.	Issue name	Instrument*	Initial rated amount (Rs. crore)	Amount outstanding after last surveillance (Rs. crore)	Amount after May-20 payout (Rs. crore)	Rating action
1.	India Standard Loan Trust XXIX	PTC Series A	98.14	36.19	22.65	[ICRA]AA(SO); Reaffirmed
		Second Loss Facility	3.68	3.26	3.26	[ICRA]BBB(SO); Reaffirmed
		Liquidity Facility	0.98	0.98	0.98 (0.24 utilised)	[ICRA]AAA(SO); Reaffirmed

**Instrument details are provided in Annexure I*

Rationale

ICRA has reaffirmed the ratings for the pass-through certificates (PTCs), Second Loss Facility (SLF) and Liquidity Facility (LF) originated by AU Small Finance Bank Limited (AUSFB) which are backed by MSME loan receivables. The ratings reaffirmation is on account of the significant amortisation in the transaction which has led to a build-up of the credit enhancement cover over the future PTC payouts. The break-even collection efficiency is also comfortable when compared to the actual collection level observed in the pool.

Pool Performance Summary

A summary of the performance of the pool after May 2020 payouts has been tabulated below.

Parameter	India Standard Loan Trust XXIX
Months post securitization	45
Pool Amortisation (as % of initial pool principal)	76.93%
3 months Average Monthly Collection Efficiency[1]	117.39%^
Cumulative Collection Efficiency[2]	98.33%^
Loss cum 90+ dpd[3] (% of initial Pool)	1.77%
Loss cum 180+ dpd (% of initial Pool)	1.52%
90+ dpd[4] (% of Balance Pool)	5.30%
180+ dpd (% of Balance Pool)	4.40%
First Loss Facility (% of Balance PTC)	11.50%

[1] *Average of (Total Current and Overdue collections for the month as a % of Total Billing for the month) for 3 months*

[2] *(Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)*

[3] *Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal*

[4] *Inclusive of Unbilled Principal portion of contracts delinquent(Future POS) for more than 90 days, as a % of Balance Principal*

Second Loss Facility (% of Balance PTC)	14.40%
Cumulative Cash Collateral Utilization	0.00%
Breakeven Collection Efficiency[5] for PTC A (adjusted for LF)	64.80%
CC (adjusted for LF utilized) as a % of Balance PTC	24.85%
Excess Interest Spread (% of Balance PTC)[6]	23.87%

^Collection efficiency numbers are taken for Feb-20, Mar-20 and Apr-20 payouts

Key rating drivers

Credit Strengths

- Moderately high amortization of PTCs resulting in build-up of Credit Collateral (CC) and Excess Interest Spread (EIS) cover available for the balance PTC payouts;
- Moderately low delinquency levels exhibited in the pool especially in harder buckets.

Credit Challenges

- Uncertainty arising from the nationwide lockdown due to the Covid-19 pandemic that may lead to near-term stress on the pool performance.

Description of key rating drivers highlighted above:

The performance of the pool has been good with cumulative collection efficiency of more than 98% after the May 2020 payouts. The pool has exhibited higher delinquencies in the softer buckets viz 30+dpd ranging between 18.7% and 29.2% since the last surveillance exercise. However, the roll forward rate is low in the pool as witnessed by the delinquencies in the harder buckets; with the 90+dpd standing below 6.5%. The shortfall in the collections has been absorbed by the EIS available in the structure. In addition to the EIS, CC has not been utilized to meet the promised principal and interest payouts to the PTCs because of the presence of Liquidity Facility in the pool. The credit enhancement (as % of balance PTC payouts) has built up moderately in the transaction from the initial levels owing to pool amortisation.

Overall, the credit enhancement available for meeting balance payouts to the PTC investors is sufficient to reaffirm the ratings of the transaction. ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations.

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 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 can be used only for the interest shortfall during the moratorium period. The principal collections including prepayments, if any, shall be passed on to the investor. The EIS after meeting the interest obligations plus the actual principal collections shall not flow back to the originator during the moratorium period. The status on the extension of the moratorium by the investors for additional three months (June 2020 to August 2020 collections) as allowed by the RBI will also be a key monitorable for the transaction.

[5] *(Balance Cashflows payable to investor– Cash collateral available-Liquidity facility utilized)/ Balance Pool Cashflows*

[6] *(Pool Cashflows – Cashflows to PTC A)/ Pool Principal outstanding*

Key rating assumptions

ICRA's cash flow modeling for the surveillance of ABS transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, and also the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 1.5 - 2.5% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pools is estimated at 18.0 - 27.0% per annum.

Liquidity Position

PTC Series A: Strong

Liquidity position is expected to be strong as the collections from the pool and credit collateral available are expected to be comfortable to meet the balance PTC payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in the current stress scenario, the available credit collateral would cover the shortfalls in the promised investor payouts for a period of 33 months.

Second Loss Facility: Adequate

The second loss facility has adequate support available in the transactions from the first loss facility and EIS.

Liquidity Facility: Superior

The liquidity facility has seniority in the waterfall over the investor payouts and top-up of credit collateral. Further LF can only be used up to the penultimate payout and as per the terms of the transaction the outstanding credit collateral would at all points of time cover the LF during the tenure of the transaction.

Rating sensitivities

Positive Triggers - The ratings can be upgraded, provided the collections improve substantially to pre-lockdown levels resulting in increase of CC cover over the balance PTC payables.).

Negative Triggers - Pressure on the ratings could emerge due to sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and credit enhancement utilisation levels.

Analytical approach

The rating actions are based on the performance of the pool till April 2020 (collection month), the present delinquency levels and the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

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

About the Company:

AU is a scheduled commercial bank, which has transitioned from an asset financing NBFC to an SFB. While it was incorporated in 1996 as an NBFC, it commenced SFB operations on April 19, 2017. AU is the largest Small Finance Bank and has an established market position in Rajasthan, and has expanded operations to Maharashtra, Gujarat, and other states over the years. As of March 31, 2020, it had 406 branches, 112 Business Correspondent Banking Outlets and 31 asset centres across 11 states and 1 Union territory. Over 80% of its branches are in the four states of Rajasthan, Madhya Pradesh, Gujarat, and Maharashtra.

AU operates in the retail asset financing segment, with the vehicle financing segment accounting for 42% of its AUM. Its product portfolio also includes MSME and SME financing, construction finance, loans to NBFCs, business banking, gold loans, home loans, agri-SME loans, unsecured personal loans (PL) and consumer durables (CD). AU's liability product offerings include current accounts, savings accounts, recurring & term deposits, transaction banking, as well as a bouquet of third- party mutual funds and insurance covers among others.

During its early years of operations, AU (formerly Au Financiers (India) Limited) was primarily engaged in vehicle financing through funds raised from high net worth individuals in Jaipur. Over the years, the company raised equity from private investors at regular intervals and expanded its product portfolio. In September 2015, the Reserve Bank of India (RBI) granted in-principle approval to AU for setting up an SFB. On December 20, 2016, AU got the final licence and it converted into an SFB on April 19, 2017. Further, the bank got listed on stock exchanges in July 2017 and was granted scheduled commercial bank status in November 2017.

AU reported a profit after tax (PAT) of Rs. 675 crore (Rs. 592 crore excluding profit on sale of partial stake in Aavas Financiers) on a total asset base of Rs. 42,143 crore in FY2020 compared to PAT of Rs. 382 crore on a total asset base of Rs. 32,623 crore in FY2019. Further, AU achieved PAT of Rs. 122 crore in Q4 FY2020 compared to Rs. 118 crore in the corresponding period in the previous year. As of March 31, 2020, the net worth stood at Rs. 4,377 crore with a reported capital adequacy of 22.0%.

Key Financial Indicators (Audited)

Amounts in Rs. Crore	FY2018	FY2019	FY2020
PAT	292	382	675
Net Worth	2,281	3,163	4,377
Assets under management	16,188	24,246	30,893
Total Assets	18,833	32,623	42,143
Return on Average Assets	2.0%	1.5%	1.8%
Return on Average Equity	13.7%	14.0%	17.9%
Gearing (times) – on book	6.8	8.9	8.3
CRAR	19.3%	19.3%	22.0%
Gross NPA %	2.0%	2.0%	1.7%
Net NPAs%	1.3%	1.3%	0.8%
Net NPA/Net worth %	7.4%	9.3%	5.0%

Source: AU's financial results, ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

S. No	Name of Instrument	Current Rating (FY 2021)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated	Amount Outstanding	Date & Rating 29-Jun-20	FY2020 -	FY2019 22-Mar-19	22-Jun-18	FY2018 19-Mar-18	25-Sep-17
1	India Standard Loan Trust XXIX	PTC Series A	98.14	22.65	[ICRA]AA(SO)	-	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)
		Second Loss Facility	3.68	3.26	[ICRA]BBB(SO)	-	[ICRA]BBB(SO)	[ICRA]BBB(SO)	[ICRA]BBB(SO)	[ICRA]BBB(SO)
		Liquidity Facility	0.98	0.98	[ICRA]AAA(SO)	-	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

Amounts 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 I: Instrument details

Sl.	Trust Name	Instrument name	Date of Issuance	Coupon Rate (p.a.p.m)	Scheduled Maturity Date#	Amount after May-20 payout (Rs. crore)[7]	Current Rating
1	India Standard Loan Trust XXIX	PTC Series A	September 2016	7.86%	August 2025	22.65	[ICRA]AA(SO)
		Second Loss Facility	September 2016	--	--	3.26	[ICRA]BBB(SO)
		Liquidity Facility	September 2016	--	--	0.98 (0.24 utilised)	[ICRA]AAA(SO)

 # The actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

[7] *100 lakh = 1 crore = 10 million*

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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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