November 24, 2020

Manba Finance Limited: Ratings withdrawn/upgraded for PTCs issued under two-wheeler loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore[1])	Principal O/s Previous Surv Exercise (Rs. crore)	Amount O/s after Oct-20 Payout (Rs. crore)	Rating action
Northern ARC 2019 CV Bloom	PTC Series A2	0.83	0.83	0.00	[ICRA]A+(SO); Withdrawn
Northern ARC 2019 2W Galadriel	PTC Series A1	20.02	NA	10.22	[ICRA]A+(SO); Upgraded from [ICRA]A(SO)
	PTC Series A2	0.69	NA	0.69	[ICRA]A-(SO); Upgraded from [ICRA]BBB+(SO)

**Instrument details are provided in Annexure-I*

Rationale

ICRA has withdrawn the rating for pass through certificate (PTC) issued under a two-wheeler loan securitisation transaction originated by Manba Finance Limited (Manba), as tabulated above. All the pay-outs to the investors in Northern ARC 2019 CV Bloom PTC Series A2 have been made and no further payments are due to the investors.

ICRA has also upgraded ratings of the PTCs issued by Northern ARC 2019 2W Galadriel, which are backed by two-wheeler loans. The ratings upgrade is on account of the moderate 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. The performance of the pools would, however, be exposed to any prolonged economic slowdown caused by the Covid-19 pandemic.

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

Pool performance summary (till October 2020 pay-out month)

Parameter	Northern ARC 2019 2W Galadriel
Months Post Securitisation	13
Pool Amortisation	42.03%
PTC Amortisation PTC A1	48.94%
PTC Amortisation PTC A2	0.00%
Cumulative Collection Efficiency[2]	76.94%
Loss-cum-30+ dpd[3] (% of initial pool principal)	0.01%
Loss-cum-90+ dpd (% of initial pool principal)	0.00%
30+ dpd[4] (% of balance pool principal)	0.00%
90+ dpd (% of balance pool principal)	0.00%
Cumulative Cash Collateral (CC) Utilisation	0.00%
Breakeven Collection Efficiency[5] PTC A1	63.77%
Breakeven Collection Efficiency PTC A2	69.39%
CC (% of balance pool)	7.76%
Principal Subordination (% of balance pool principal) for PTC A1	23.38%
Principal Subordination (% of balance pool principal) for PTC A2	18.21%
Excess Interest Spread (EIS) (% of balance pool principal) for[6] PTC A1	10.96%
EIS (% of balance pool principal) for PTC A1 and PTC A2	9.61%

Key rating drivers

Credit strengths

- Moderate amortization of senior PTC resulting in build-up of CC, Principal subordination and EIS has led to high build up on PTC payouts;
- There has been no CC utilisation in any of the pool till date

Credit challenges

- Significant geographical concentration in the pool
- Performance of the pool would be exposed to any prolonged economic slowdown being caused by the Covid-19 pandemic.

Description of key rating drivers highlighted above

The performance of the pool has been good until the April 2020 pay-outs with a cumulative collection efficiency of more than 98%. The monthly collection efficiency declined and was in the range of 44% to 58% during the May 2020 to Sep 2020 pay-outs. The shortfall in the collections has been absorbed by the over-collateral/subordination and EIS in the

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[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 30 days, as a percentage of Initial Pool Principal*

[4] *Inclusive of Unbilled Principal portion of contracts delinquent for more than 30 days, as a percentage of Balance Principal*

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

[6] *(Pool Cashflows – Cashflows to PTC A1 – PTC A2 principal – originator's residual share)/Pool Principal outstanding*

structure and there has not been any CC utilisation in the transactions till date. The pool has amortised to the extent of 42% and has seen a build-up in the credit enhancement cover over the balance life of these transactions.

The investors in the transaction had granted a moratorium to the underlying contracts for six months (March 2020 to August 2020 collections) and three months (March 2020 to May 2020 collections), respectively, in line with the Covid-19 – Regulatory Package announced by the Reserve Bank of India (RBI) in March 2020 and May 2020. As per the investor approval, the credit enhancement was not to be used to meet the promised interest pay-outs during the moratorium period. Thus, there has been no CC utilisation during this period when the collections were lower due to the countrywide lockdown. Further, the maturity date of the pools has been revised accordingly. Nonetheless, the performance of the pools would remain exposed to any prolonged economic slowdown.

Overall, the credit enhancement available for meeting the balance pay-outs to the investors is sufficient to upgrade the ratings of PTC Series A1 and PTC Series A2. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of credit enhancement, relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for this particular transaction involves the simulation of potential delinquencies, losses in the pool expected at maturity. 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, which caters to the salaried borrowers and the inherent risk in the underlying security. 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 loss and prepayments during the balance tenure of the pools are as given in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Northern ARC 2019 2W Galadriel	2.0%-3.0%	6.0%-9.0% p.a.

Liquidity position: 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 pay-outs to investors of both PTC A1 and PTC A2.

Rating sensitivities

Positive triggers – The ratings may be upgraded on the collection efficiency returning to the pre-Covid levels on a sustained basis and the significant build-up of the credit enhancement over the balance PTC amount payable.

Negative triggers – The ratings may be downgraded on the decline in monthly collection efficiency (<80%) on a sustained basis of the underlying pool contracts, leading to high delinquency levels and decreased cover for the future PTC pay-outs from the credit enhancements.

Analytical approach

The rating action is based on the analysis of the performance of Manba's portfolio till June 2020, 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	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

Manba Finance Limited (MFL), incorporated in 1996, is a RBI registered NBFC based in Mumbai, Maharashtra. In the earlier years, the company was acting as a business correspondent in vehicle financing for a few private and public banks. From 2008 onwards, the company started two-wheeler-financing. The company is promoted by Mr. Manish Shah and 100% of the company's stake is owned by Mr. Manish Shah and family as on March 31, 2020.
Its operations are concentrated in Maharashtra, however, over the years it has expanded to two other states i.e. Gujarat and Rajasthan. As on Jun-20, the company's total AUM was Rs. 438.35 crore.

Key financial indicators

	FY2019	FY2020
Total Income	90.3	118.8
Profit after Tax (PAT)	14.3	17.9
Asset Under Management	454.4	513.3
Gross NPA (%)	1.2%	1.4%
Net NPA (%)	1.0%	1.2%

Note: Amounts in Rs. Crore
Source: Manba, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Initial Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018
					Nov-24-20	Jan-31-20	Feb-20-19	Jan-30-19	-
1.	Northern ARC 2019 CV Bloom	PTC Series A2	0.83	0.00	[ICRA]A+(SO); Withdrawn	[ICRA]A+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-

Amount in Rs. Crore
**Rating Finalized*

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Initial Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					Nov-24-20	Nov-28-19	Oct-03-19	-	-
2.	Northern ARC 2019 2W Galadriel	PTC Series A1	20.02	10.22	[ICRA]A+(SO)	[ICRA]A(SO)*	Provisional [ICRA]A(SO)	-	-
		PTC Series A2	0.69	0.69	[ICRA]A-(SO)	[ICRA]BBB+(SO)*	Provisional [ICRA]BBB+(SO)	-	-

Amount in Rs. Crore
**Rating Finalized*

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

Sl.	Trust Name	Instrument	Date of Issuance	Coupon Rate	Initial Scheduled Maturity Date*	Rated Amount (Rs. crore)	Current Rating
1	Northern ARC 2019 CV Bloom	PTC Series A2	Jan-19	14.75%	Mar-22	0.00	[ICRA]A+(SO); Withdrawn
2	Northern ARC 2019 2W Galadriel	PTC Series A1 PTC Series A2	Sep-19 Sep-19	11.50% 15.00%	Mar-22 Mar-22	10.22 0.69	[ICRA]A+(SO) [ICRA]A-(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

Analyst Contacts

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Himanshi Doshi
+91 22 6114 3410
himanshi.doshi@icraindia.com

Divya Agarwal
+91 22 6114 3412
divya.agarwal@icraindia.com

Yuvraj Handa
+91 22 6114 3440
yuvraj.handa@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999