November 26, 2020

Magma Fincorp Limited: Ratings reaffirmed for PTCs, SLF and LF issued under two commercial vehicle and tractor loan securitisation transactions

Summary of rating action

Sr. No.	Trust name	Instrument*	Initial rated amount (Rs. crore)	Amount outstanding after last surveillance (Rs. crore)	Amount after Oct-20 payout (Rs. crore)	Rating action
1.	MFL Securitisation Trust LXIV	PTC Series A1	56.59	21.39	8.53	[ICRA]AA+(SO); Reaffirmed
		PTC Series A2	3.14	1.19	0.47	[ICRA]AA+(SO); Reaffirmed
		Second Loss Facility (SLF)	3.14	3.14	3.14	[ICRA]BBB(SO); Reaffirmed
		Liquidity Facility (LF)	1.05	1.05 (0.65 utilised)	1.05 (0.38 utilized)	[ICRA]AAA(SO); Reaffirmed
2.	MFL Securitisation Trust XCII	PTC Series A1	47.57	NA	31.90	[ICRA]AA(SO); Reaffirmed
		PTC Series A2	1.47	NA	0.99	[ICRA]AA(SO); Reaffirmed
		Second Loss Facility (SLF)	1.59	NA	1.59	[ICRA]BBB-(SO); Reaffirmed

**Instrument details are provided in Annexure I*

Rationale

The pass-through certificates (PTCs), second loss facility (SLF) and liquidity facility (LF) issued under two securitisation transactions originated by Magma Fincorp Limited (MFL) are backed by vehicle and tractor loan receivables. The rating reaffirmation takes into account the moderate (for MFL Securitisation Trust XCII transaction) to high (for MFL Securitisation Trust LXIV transaction) amortisation of the pools and the availability of credit enhancement in the transaction. The amortization has led to a healthy build-up of cover from the outstanding credit enhancements for future payouts. Nonetheless, the ratings would remain exposed to any prolonged economic slowdown due to the Covid-19 pandemic that could lead to lower-than-expected collections.

A summary of the performance of the pools after the October 2020 pay-outs has been provided below.

Parameter	MFL Securitisation Trust LXIV	MFL Securitisation Trust XCII
Months post securitisation	31	13
Pool amortisation (%)	84.20%	30.05%
Cumulative collection efficiency (%)[1]	98.09%	97.87%
Last 3 months' average monthly collection efficiency	102.56%	106.46%
Cumulative prepayment rate	14.40%	6.14%
Average monthly prepayment rate	0.50%	0.49%

[1] *Cumulative collections till date / Cumulative billings till date plus opening overdues*

Parameter	MFL Securitisation Trust LXIV	MFL Securitisation Trust XCII
Loss-cum-90+ (% of initial pool principal)[2]	1.74%	0.21%
Loss-cum-180+ (% of initial pool principal)[3]	1.40%	0.10%
Break-even collection efficiency (%)[4]	35.56%	74.16%
Cumulative credit collateral (CC) utilisation	0.00%	0.00%
First loss facility available (as % of balance pool)[5]	26.05%	10.01%
Second loss facility available (as % of balance pool)	33.24%	4.65%
Excess Interest Spread (EIS) over balance tenure (as % of balance pool)	13.67%	17.61%

Key rating drivers

Credit strengths

- Moderate to high amortization of PTCs resulting in build-up of Credit Collateral (CC) and EIS cover available for the balance PTC payouts;
- Low delinquency levels exhibited by the pools especially in harder buckets;

Credit challenges

- Moderate geographical concentration of the contracts in the pool at the state level;
- Moderate share of higher LTV contracts in 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 pools has been good with cumulative collection efficiency in the region of 97-99% till September 2020 collection month for both the pools. The loss cum 180+ dpd in both the pools as on October 2020 payouts is low at 1.7% for the LXIV transaction and 0.2% for the XCII transaction. Till October 2020 payouts, the shortfall in the collections have largely been absorbed by the EIS in the structure. There has been nil CC utilization in the MFL Securitisation Trust XCII transaction and marginal CC utilisation in the MFL Securitisation Trust LXIV transaction which has been replenished in the subsequent months. An important feature of the structures of these transactions is that the yield on PTC Series A2 is residual thereby extending further support to the transaction. As both the pools have undergone moderate to high amortisation, credit collateral (as % of balance PTC payouts) has built up in the both the transactions.

The investor in both the transactions had granted moratorium to the underlying contracts for five months (April 2020 to August 2020 collections) in line with the 'Covid-19 Regulatory Package' announced by the Reserve Bank of India (RBI) on March 27, 2020 and the extension of the same announced on May 23, 2020. The PTC investor payouts has been modified in both the transactions and the credit enhancement was not used for payouts during the moratorium period. Overall,

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[2] *POS on contracts aged 90+ dpd + overdues / Initial POS on the pool*

[3] *POS on contracts aged 180+ dpd + overdues / Initial POS on the pool*

[4] *It is the minimum collection efficiency required over the balance tenure to ensure all investor pay-outs are met: (Balance cash flows payable to investor – Cash collateral available net of utilized LF)/ Balance pool cash flows*

[5] *First loss facility available net of utilized LF*

the credit enhancement available for meeting the balance pay-out to the investor is adequate to reaffirm the ratings in the transactions. ICRA will continue to closely monitor the performance of the transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (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 co-efficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and the rated pools, as well as 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 these adjustments, the expected loss and pre-payments during the balance tenure of the pools are provided in the table below.

Sl. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	MFL Securitisation Trust LXIV	1.5% - 2.0%	8-12% p.a.
2	MFL Securitisation Trust XCII	3.5% - 4.0%	8-12% p.a.

Liquidity position

Strong for PTCs

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 twenty-nine months and eight months for LXIV and XCII pools respectively.

Adequate for SLF

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

Superior for liquidity facility

The liquidity facility (LF) 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 to pre-lockdown levels on a sustained basis 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 CE utilization level.

Analytical approach

The rating action is based on the performance of the pool till September 2020 (collection month), the present delinquency profile of the pool contracts, performance expected over the balance pool tenure, and the credit enhancement available in the transactions.

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

About the company

Magma Fincorp Limited (formerly MFL Leasing Limited and MFL Shrachi Finance Limited) was incorporated in 1988 and is registered with the Reserve Bank of India (RBI) as an asset-financing NBFC. Magma is primarily engaged in financing of Commercial Vehicles, Construction Equipment, Passenger Cars, used assets, tractors, SME and mortgage assets. While MFL has a long track record in asset-based product financing (CVs, CE, cars, tractors), its SME business gained volume only from FY2014. The company entered mortgage financing in February 2013 and general insurance through a joint venture in October 2012.

In FY2020, Magma recorded a consolidated profit after tax of Rs. 27 crore on a total consolidated asset base of Rs. 15,852 crore compared with a consolidated profit after tax of Rs. 304 crore on a total consolidated asset base of Rs. 17,356 crore in FY2019. Magma reported assets under management of Rs 15,571 crore, as on September 30, 2020. Vehicle loans continued to dominate the portfolio mix at 64% followed by mortgage (27%) and SME (10%). Gross NPA ratio stood at 5.1% as on September 30, 2020 (vs. 6.4% as on March 31, 2020) and net NPA ratio at 3.2% as on September 30, 2020 (vs. 4.2% as on March 31, 2020).

Key financial indicators

	FY2019	FY2020	H1FY2021
Total Income	2,495	2,558	1,179
Profit after tax	304	27	76
Managed Assets	18,602	17,645	17,313
Gross stage 3/Gross advances	4.8%	6.5%	5.1%
Net stage 3/Net advances	3.1%	4.2%	3.2%

Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S.No	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
		Type	Initial Amount Rated	Amount Outstanding	Date & Rating	FY2020		FY2019		FY2018
					Nov-26-2020	Nov-22-2019	May-23-2019	Oct-22-2018	Apr-16-2018	Mar-30-2018
1	MFL Securitisation Trust LXIV	PTC Series A1	56.59	8.53	[ICRA]AA+ (SO)	[ICRA]AA+ (SO)	[ICRA]AA+ (SO)	[ICRA]AA (SO)	[ICRA]AA (SO)	Provisional [ICRA]AA(SO)
		PTC Series A2	3.14	0.47	[ICRA]AA+ (SO)	[ICRA]AA+ (SO)	[ICRA]AA+ (SO)	[ICRA]AA (SO)	[ICRA]AA (SO)	Provisional [ICRA]AA(SO)
		Second Loss Facility	3.14	3.14	[ICRA]BBB (SO)	[ICRA]BBB (SO)	[ICRA]BBB (SO)	[ICRA]BBB- (SO)	[ICRA]BBB- (SO)	Provisional [ICRA]BBB-(SO)
		Liquidity Facility	1.05	1.05 (0.38 utilized)	[ICRA]AA A(SO)	[ICRA]AAA (SO)	[ICRA]AAA (SO)	[ICRA]AAA (SO)	[ICRA]AAA (SO)	Provisional [ICRA]AAA(SO)

Amounts in Rs. Crore

S.No	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Initial Amount Rated	Amount Outstanding	Date & Rating	FY2020		FY2019	FY2018
					Nov-26-2020	Nov-20-2019	Oct-01-2019	-	-
2	MFL Securitisation Trust XCII	PTC Series A1	47.57	31.90	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-
		PTC Series A2	1.47	0.99	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-
		Second Loss Facility	1.59	1.59	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(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

Trust Name	Instrument Name	Date of Issuance	Coupon Rate (p.a.) #	Scheduled Maturity Date	Amount Rated (Rs. crore)	Current Rating
MFL Securitisation Trust LXIV	PTC Series A1	March 2018	6.60%	March 2023	8.53	[ICRA]AA+(SO)
	PTC Series A2		Residual	March 2023	0.47	[ICRA]AA+(SO)
	Second Loss Facility		N.A.		3.14	[ICRA]BBB (SO)
	Liquidity Facility		N.A.		1.05 (0.38 utilized)	[ICRA]AAA(SO)
MFL Securitisation Trust XCII	PTC Series A1	September 2019	9.30%	September 2024	31.90	[ICRA]AA(SO)
	PTC Series A2		N.A.	September 2024	0.99	[ICRA]AA(SO)
	Second Loss Facility		N.A.		1.59	[ICRA]BBB-(SO)

Per annum payable monthly

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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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