

February 11, 2021

Annapurna Finance Private Limited: Ratings upgraded for PTCs issued under one small business loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Jan-21 Payout (Rs. crore)	Rating Action
Vivriti Medivh 12 2019	PTC Series A1	15.28	-	4.73	[ICRA]AA(SO); Upgraded from [ICRA]AA-(SO)
	PTC Series A2	0.90	-	0.90	[ICRA]A+(SO); Upgraded from [ICRA]BBB+(SO)

*Instrument details are provided in Annexure-1

Rationale

The pass-through certificates (PTCs) are backed by a pool of small business loan receivables originated by Annapurna Finance Private Limited (AFPL). The ratings have been upgraded on account of the high amortisation in the transaction, which has led to a build-up of the credit enhancement cover over the future PTC payouts. The pool has also exhibited low delinquency levels.

A summary of the performance of the pool after the January 2021 payouts has been provided below.

Parameter	Vivriti Medivh 12 2019
Months post securitisation	12
Pool amortisation (%)	52.55%
Cumulative collection efficiency (%)	96.02%
Cumulative prepayment rate	18.06%
Average monthly prepayment rate	1.50%
Loss-cum-30+ (% of initial pool principal)	3.95%
Loss-cum-90+ (% of initial pool principal)	1.42%
Breakeven collection efficiency (%)	
PTC A1	35.81%
PTC A2	45.92%
Cumulative CC utilisation	0.00%
CC available (as % of balance pool)	14.75%
EIS over balance tenure (as % of balance pool)	
PTC A1	18.79%
PTC A2	17.02%
Principal subordination (% of balance pool)	
PTC A1	44.61%
PTC A2	34.07%

Key rating drivers

Credit strengths

- High amortisation of PTCs resulting in build-up of cash collateral, principal subordination and excess interest spread cover available for the balance PTC payouts

- The pool has exhibited healthy cumulative collection efficiency
- Healthy asset quality, however some increase in delinquencies observed post moratorium period

Credit challenges

- Performance of the pool would be exposed to any prolonged economic slowdown caused by the Covid-19 pandemic

Description of key rating drivers highlighted above

The pool exhibited a healthy cumulative collection efficiency of more than 96% till December 2020 (collection month) and there has been no instance of cash collateral utilisation primarily due to the timely interest and ultimate principal payment structure of the pool. The loss-cum-90+ dpd was low as of the January 2021 payout month. The credit enhancement has built up with respect to the balance investor payouts as the pool is highly amortised.

ICRA notes that the investor in the rated instrument had provided approval for the extension of a moratorium for 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 May 23, 2020. Thus, there has been no cash collateral (CC) utilisation during this period when the collections were lower due to the countrywide lockdown. Nonetheless, the performance of the pool would remain exposed to any prolonged economic slowdown caused by the Covid-19 pandemic.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to upgrade the ratings to the current level for the transactions. 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.

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 coefficient 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 mean shortfall in principal collection during the tenure of the pool is estimated at 2.0-3.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 8.0-12.0% per annum.

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 payouts to the PTC investors.

Rating sensitivities

Positive factors – The ratings could be upgraded on the sustained strong collection performance of the underlying pool contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and upon a significant increase in the cover available for future investor payouts from the credit enhancement.

Negative factors – The ratings could be downgraded for the pool on account of sustained weak collection performance of the underlying pool leading to higher-than-expected delinquency levels and credit enhancement utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of AFPL's portfolio till September 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

Annapurna Finance Private Limited (AFPL), formerly known as Annapurna Microfinance Private Limited (AMPL), is promoted by People's Forum (PF), a society registered in Odisha. PF has been engaged in various socio-economic development programmes, including microfinance, since 1990. In November 2009, PF acquired a non-banking financial company (NBFC), Gwalior Finance and Leasing Company Private Limited, which was renamed AMPL in February 2010. The company provides microcredit for mostly income-generating activities to women borrowers using the group lending model. It also offers other products such as home & home improvement loans, consumer durable loans, corporate loans, etc. As on March 31, 2020, AFPL was catering to more than 17 lakh borrowers through a network of 718 branches spread across 292 districts and 18 states.

Key financial indicators (audited)

As per For the period	Ind-AS FY2019	Ind-AS FY2020	Ind-AS H1 FY2021 (unaudited)
Net Interest Income (Rs. crore)	224.13	333.49	188.33
PAT* (Rs. crore)	62.5	82.89	2.62
Assets under Management (Rs. crore)	3,002.25	4,008.81	4,396.68
Gross NPA (%)	1.24%	1.36%	1.22%
Net NPA (%)	0.65%	0.84%	0.62%

*Excluding other comprehensive income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 11, 2021	Jul 06, 2020	Jan 28, 2020	-	-
1	Vivriti Medivh 12 2019	PTC Series A1	15.28	4.73	[ICRA]AA(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)		-
		PTC Series A2	0.90	0.90	[ICRA]A+(SO)	[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 [click here](#)

Annexure-1: Instrument details

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Vivriti Medivh 12 2019	PTC Series A1	Dec 2019	10.90%	Dec 2025	4.73	[ICRA]AA(SO)
	PTC Series A2	Dec 2019	15.00%	Dec 2025	0.90	[ICRA]A+(SO)

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

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