

June 29, 2021

AU Small Finance Bank Limited: Ratings reaffirmed for PTCs, SLF, and LF issued under MSME loan 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 May-21 Payout (Rs. crore)	Rating Action
India Standard Loan Trust XXIX	PTC Series A	98.14	22.65	15.20	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility	3.68	3.26	3.26	[ICRA]BBB(SO); Reaffirmed
	Liquidity Facility	0.98	0.98 (0.24 utilised)	0.98 (0.36 utilised)	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The pass-through certificates (PTCs) are backed by a pool of micro, small and medium enterprise (MSME) loan receivables originated by AU Small Finance Bank Limited (AUSFB). The ratings have been reaffirmed on account of the significant amortisation in the transaction, which has led to the build-up of the credit enhancement cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool.

A summary of the performance of the pool after the May 2021 payouts (April 2021 collection month) has been provided below.

Parameter	India Standard Loan Trust XXIX
Months post securitisation	57
Pool amortisation (%)	83.76%
PTC amortisation (%)	84.51%
3 months average monthly collection efficiency	98.30%
Cumulative collection efficiency ¹ (%)	98.61%
Cumulative prepayment (% of initial pool principal)	66.08%
Average monthly prepayment rate	1.16%
Loss-cum-30+ ² (% of initial pool principal)	6.69%
Loss-cum-90+ ³ (% of initial pool principal)	2.88%
Breakeven collection efficiency (%) ⁴	54.11%
Cumulative cash collateral (CC) ⁵ utilisation	0.00%
CC available (as % of balance pool)	36.76%
Excess interest spread (EIS) over balance tenure (as % of balance pool)	22.33%

¹ (Collection in last 3 months excl. collections of prepayment) / (Billing for last 3 months excl. prepayment billing)

² POS on contracts aged 30+ dpd + overdues / Initial POS on the pool

³ POS on contracts aged 90+ dpd + overdues / Initial POS on the pool

⁴ Breakeven collection efficiency = Balance PTC cash flows - cash collateral available / balance pool cash flows

⁵ CC includes first loss facility and second loss facility

Key rating drivers

Credit strengths

- High amortisation of PTCs resulting in build-up of cash collateral (CC) and excess interest spread (EIS) cover available for the balance PTC payouts
- High CC cover available for balance PTC payouts in the transaction

Credit challenges

- Decline in collections witnessed in April 2021 and May 2021 due to the second wave of the Covid-19 pandemic; however, gradual recovery expected as lockdowns ease and fresh infections reduce

Description of key rating drivers highlighted above

The performance of the pool has been good with a cumulative collection efficiency of 98% (till April 2021 collections). Post the end of the moratorium, monthly collections dropped and ranged between 61% and 90%. However, higher overdue (OD) collections were observed in March 2021, taking the collections above 100%. The shortfall in collections was absorbed by the EIS available in the structure. In addition to the EIS, the presence of a liquidity facility (LF) in the pool has resulted in the CC not being utilised to meet the promised principal and interest payouts to the PTCs. As the pool has amortised by ~84%, the CC has built up to ~37% (after considering the previous reset) of the balance pool principal. While the collections witnessed a moderation in April 2021 and may decline further in May 2021 (i.e. June 2021 payout) due to the second wave of the pandemic, ICRA takes comfort from the expected improvement in collections from June 2021 as lockdowns are being lifted in certain states as well as the healthy build-up of credit enhancement in the transaction to meet temporary shortfalls in collections.

ICRA has analysed the possibility of a further CC reset as per the Reserve Bank of India's guidelines on Reset of Credit Enhancements in Securitisation Transactions. Overall, the credit enhancement available for meeting the balance payouts to the investors (including downward reset in the CC up to ~32% of the balance pool principal) is sufficient to reaffirm the ratings at the current level in the transaction. 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 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 previously 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 2.5-3.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 18.0-27.0% per annum.

Liquidity position

PTCs: Strong

The liquidity position is expected to be strong as the collections from the pool and the 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 of contracts in the current stress scenario, the available credit collateral would cover the shortfalls in the promised investor payouts for a period of 45 months.

SLF: Adequate

The SLF has adequate support available in the transaction from the first loss facility and the EIS.

LF: Superior

The LF has seniority in the waterfall over the investor payouts and the top-up of credit collateral. Further, it 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 factors – The ratings can be upgraded if the collections improve substantially to the pre-lockdown levels, resulting in an increase in the CC cover over the balance PTC payouts.

Negative factors – Given the high CC build-up, pressure on the ratings could emerge if there is a significant decline in the collection performance of the underlying pool, leading to higher-than-expected delinquency levels and credit enhancement utilisation level.

Analytical approach

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

About the originator

AUSFB is a scheduled commercial bank, which has transitioned to a small finance bank (SFB) from an asset financing non-banking financial company (NBFC). While it was incorporated in 1996 as an NBFC, it commenced SFB operations on April 19, 2017. AUSFB is the largest SFB and has an established market position in Rajasthan. It expanded its operations to Maharashtra, Gujarat and other states over the years. As of March 31, 2021, it had 729 branches and 15 business centres across 17 states & Union Territories. Over 80% of its branches are in the four states of Rajasthan, Madhya Pradesh, Gujarat, and Maharashtra.

AUSFB operates in the retail asset financing segment; retail assets are 91% of its assets under management (AUM). Its product portfolio also includes MSME and small and medium enterprise (SME) financing, construction finance, loans to NBFCs, business banking, gold loans, home loans, agri-SME loans, unsecured personal loans and consumer durables. AUSFB'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.

AUSFB reported a profit after tax (PAT) of Rs. 1,171 crore on a total asset base of Rs. 51,591 crore in FY2021 compared to a PAT of Rs. 675 crore on a total asset base of Rs. 42,143 crore in FY2020. Further, it achieved a PAT of Rs. 169 crore in Q4 FY2021 compared to Rs. 122 crore in the corresponding period in the previous year. As of March 31, 2021, the net worth stood at Rs. 6,275 crore with a reported capital adequacy of 23.37%.

Key financial indicators (audited; consolidated)

AU Small Finance Bank Limited	FY2019	FY2020	FY2021
Profit after tax	382	675	1,171
Assets under management	24,246	30,893	37,712
Total assets	32,623	42,143	51,591
% Gross NPA	2.0%	1.7%	4.3%*
% Net NPA	1.3%	0.8%	2.2%

Source: Company, ICRA research; All ratios as per ICRA calculation; Amount in Rs. Crore

* As of March 31, 2021, 90+dpd stands at 2.7%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				June 29, 2021	June 29, 2020	-	March 22, 2019	June 22, 2018
1 India Standard Loan Trust XXIX	PTC Series A	98.14	15.20	[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)
	Liquidity Facility	0.98	0.98 (0.36 utilised)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	-	[ICRA]AAA(SO)	[ICRA]AAA(SO)

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
India Standard Loan Trust XXIX	PTC Series A	Simple
	Second Loss Facility	Simple
	Liquidity Facility	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
India Standard Loan Trust XXIX	PTC Series A	September 2016	7.86%	August 2025	15.20	[ICRA]AA(SO)
	Second Loss Facility		-		3.26	[ICRA]BBB(SO)
	Liquidity Facility		--		0.98 (0.36 utilised)	[ICRA]AAA(SO)

* Scheduled maturity 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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