

May 19, 2022

Namra Finance Limited: Ratings upgraded for PTCs issued under microloan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount after Apr-22 Payout (Rs. crore)	Rating Action
Northern Arc 2021 MFI Zelaya	PTC Series A1	14.99	NA	7.16	[ICRA]AA-(SO); Upgraded from [ICRA]A+(SO)
	PTC Series A2	0.34	NA	0.34	[ICRA]A+(SO); Upgraded from [ICRA]A-(SO)

*Instrument details are provided in Annexure-1

Rationale

ICRA has upgraded the ratings for the pass-through certificates (PTCs) issued under a microloan securitisation transaction backed by a pool originated by Namra Finance Limited (NFL). The ratings upgrade factors in the high amortisation of the PTCs, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency is also low compared to the actual collection levels observed in the pool.

A summary of the performance of the pools till the March 2022 collection month (April 2022 payout) has been tabulated below.

Pool performance summary

Parameter	Northern Arc 2021 MFI Zelaya
Months post securitisation	8
Pool amortisation	37.14%
PTC Series A1 amortisation	52.25%
PTC Series A2 amortisation	0.00%
Cumulative collection efficiency ¹	107.57%
Loss-cum-0+ dpd ² (% of initial pool)	1.13%
Loss-cum-90+ dpd ³ (% of initial pool)	0.47%
Cumulative cash collateral (CC) utilisation	0.00%
Breakeven collection efficiency (BECE) ⁴ PTC Series A1	49.89%
PTC Series A2	53.01%
Cumulative prepayment rate (% of initial pool)	0.78%
Cash Collateral (CC) (% of balance pool)	12.73%
Principal subordination (% of balance pool) PTC Series A1	33.15%
PTC Series A2	29.97%
Excess interest spread (% of balance pool) ⁵ PTC Series A1	11.01%
PTC Series A2	10.64%

¹ (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

² Inclusive of Unbilled and Overdue Principal portion of delinquent contracts, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 90 days, as a % of Initial Pool Principal

⁴ (Balance Cash flows payable to investor – CC available)/ Balance Pool Cash flows

⁵ (Pool Cash flows – Cash flows to PTC investors– Originator's residual share)/ Pool Principal outstanding

Key rating drivers

Credit strengths

- High amortisation of PTCs resulting in build-up of CE cover available for the balance PTC payouts
- Healthy collections and low delinquency levels observed in the pool

Credit challenges

- High geographical concentration at state level with the top two states having ~72% share of pool
- Performance of pool would remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile; further, pool performance would also be exposed to political and communal risks.
- Pool performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic

Description of key rating drivers highlighted above

The performance of the pool has shown healthy cumulative collection efficiency of more than 100% (including advance collections) as of the March 2022 collection month. The loss-cum-30+ days past due (dpd) stood at 0.78% for the pool as of the April 2022 payout month. The breakeven collection efficiency of ~50% for PTC Series A1 and ~53% for PTC Series A2 is also below the actual collection level observed in the pool. Healthy collections and high pool amortisation of ~37% have led to moderate build-up of the CE in the pool. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the ratings to the current levels in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

The balance pool has high geographical concentration at the state level with the top 2 states accounting for ~72% of the pool. Moreover, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

Performance of past rated pools: ICRA has rated five standalone PTC transactions of NFL till date. The live pools, which have completed at least one payout, have shown high cumulative collection efficiency of more than 99% (including advances) and low delinquencies with the loss-cum-0+ dpd in the range of 0.3-1.1% with nil CC utilisation as of the April 2022 payout.

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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 2.75-3.75% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-9.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. After PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – The ratings may be upgraded if the CC covers the entire balance PTC payouts.

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher CE utilisation levels, would result in a ratings downgrade.

Analytical approach

The rating action is based on the performance of the pool till March 2022 (collection month), the present delinquency levels and the CE available in the pools, and the performance expected over the balance tenure of the pools.

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

About the company

Namra Finance Limited (NFL), a wholly-owned subsidiary of Arman Financial Services Ltd (AFSL), manages the microfinance business of the Arman Group. It is registered with the Reserve Bank of India (RBI) as a non-banking financial company - microfinance institution (NBFC-MFI). NFL's operations are spread across central and western India in Gujarat, Madhya Pradesh, Uttar Pradesh, Uttarakhand, Maharashtra, Rajasthan and Haryana. Lending is done with a ticket size of up to Rs. 35,000 through cashless transfers into the borrower's bank account. NFL lends to women borrowers through joint liability groups (JLGs). As of December 2021, the Group's microfinance operations had 211 branches spread over 99 districts in seven states. The company had 3.6 lakh+ active customers and has served 8 lakh+ customers over the years.

Key financial indicators (audited)

Particulars	FY2020 (Audited)	FY2021 (Audited)	9M FY2022 (Provisional)
Total income	148.4	134.0	117.1
Profit after tax	25.2	4.9	8.7
Assets under management	621.1	642.4	855.7
Gross NPA%	0.93%	4.63%	3.8%
Net NPA%	0.01%	2.98%	0.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					May 19, 2022	October 28, 2021	August 11, 2021		
1	Northern Arc 2021 MFI Zelaya	PTC Series A1	14.99	7.16	[ICRA]AA-(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-
		PTC Series A2	0.34	0.34	[ICRA]A+(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Northern Arc 2021 MFI Zelaya	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex

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

Trust Name	Instrument	Date of Issuance	Coupon Rate (p.a.p.m.)	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Northern Arc 2021 MFI Zelaya	PTC Series A1	August 2021	9.60%	April 2023	7.16	[ICRA]AA-(SO)
	PTC Series A2	August 2021	15.00%	April 2023	0.34	[ICRA]A+(SO)

* Scheduled maturity at transaction initiation; may change on account of prepayment

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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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