

June 03, 2022

Pahal Financial Services Pvt. Ltd.: 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 May-22 Payout (Rs. crore)	Rating Action
Gonzales 12 2021	PTC Series A1	30.89	NA	20.95	[ICRA]A+(SO); Upgraded from [ICRA]A(SO)
	PTC Series A2	0.69	NA	0.69	[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 Pahal Financial Services Pvt. Ltd. [PFSPL rated; [ICRA]BBB- (Stable)]. The ratings upgrade factors in the moderate 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 April 2022 collection month (May 2022 payout) has been tabulated below.

Pool performance summary

Parameter	Gonzales 12 2021
Months post securitisation	5
Pool amortisation	28.95%
PTC Series A1 amortisation	32.18%
PTC Series A2 amortisation	0.00%
Cumulative collection efficiency ¹	99.61%
Loss-cum-0+ dpd ² (% of initial pool)	0.74%
Loss-cum-90+ dpd ³ (% of initial pool)	0.07%
Cumulative cash collateral (CC) utilisation	0.00%
Breakeven collection efficiency (BECE) ⁴ PTC Series A1	66.69%
PTC Series A2	69.53%
Cumulative prepayment rate (% of initial pool)	1.72%
Cash collateral (CC; % of balance pool)	15.48%
Principal subordination (% of balance pool) PTC Series A1	14.10%
PTC Series A2	11.29%
Excess interest spread (% of balance pool) ⁵ PTC Series A1	7.37%
PTC Series A2	7.04%

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 contract 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 Series A1 – Originator's residual share)/Pool Principal outstanding

Key rating drivers

Credit strengths

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

Credit challenges

- High geographic concentration at state level with the top three states having ~90% 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 pool has shown a healthy cumulative collection efficiency of more than 99% (including advance collections) as of the April 2022 collection month. The monthly collections in each of the months post securitisation have exceeded 99% with no impact seen of the third wave of the pandemic. The loss-cum-90+ days past due (dpd) is low at 0.07% for the pool as of the May 2022 payout month. The breakeven collection efficiencies of ~67% for PTC Series A1 and ~70% for PTC Series A2 are also well below the actual collection levels observed in the pool. Healthy collections and moderate pool amortisation of ~29% 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 3 states having a share of ~90% in 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: While ICRA has rated five standalone PTC transactions of PFSP, only one of these pools is live. The live pool has shown a high cumulative collection efficiency of more than 99% (including advances) and low delinquencies with a loss-cum-0+ dpd of 0.74% with nil cash collateral (CC) utilisation as of the May 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 3.00-4.00% 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 entire 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 entire principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC Series A1 and PTC Series A2 investors.

Rating sensitivities

Positive factors – The ratings may be upgraded if the cash collateral 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 credit enhancement utilisation levels, would result in a ratings downgrade.

Analytical approach

The rating action is based on the performance of the pool till April 2022 (collection month), the present delinquency levels and the credit enhancement 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

Pahal Financial Services Pvt. Ltd. is an Ahmedabad-based non-banking financial company-microfinance institution (NBFC-MFI) registered with the Reserve Bank of India. The company started its operations in March 2011 by acquiring the existing operations of Lok Vikas Nidhi, a trust operational in Gujarat for over 25 years. The current promoters acquired the portfolio of Rs. 2.6 crore spread over 15 branches, along with the field staff of Lok Vikas and subsequently transferred the acquired portfolio to an NBFC along with an equity contribution of Rs. 2 crore. The NBFC was renamed Pahal Financial Services Pvt. Ltd. PFSPS lends to poor women primarily in the rural and semi-urban areas of Gujarat, Rajasthan, Madhya Pradesh, Bihar and Maharashtra. Pre-Covid, it had also ventured into Chhattisgarh and Uttar Pradesh where growth has been low due to Covid-related issues.

PFSPS reported a profit after tax (PAT) of Rs. 1.94 crore in 9M FY2022 on assets under management (AUM) of Rs. 842.53 crore as on December 31, 2021 against a profit of Rs. 4.29 crore in FY2021 on AUM of Rs. 773.25 crore as on March 31, 2021.

Key financial indicators (IndAS)

	FY2020	FY2021	9M FY2022*
Total Income (Rs. crore)	145.10	157.58	127.12
Profit after Tax (Rs. crore)	15.90	4.29	1.94
Overall Assets under Management (Rs. crore)	736.44	773.25	842.53
Gross Non-performing Assets (NPA; %)	0.23%	2.30%	8.13%
Net NPA (%)	0.23%	2.24%	7.22%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; * As per limited review 9M financials

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
					June 03, 2022	February 21, 2022	January 04, 2022		
1	Gonzales 12 2021	PTC Series A1	30.89	20.95	[ICRA]A+(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-
		PTC Series A2	0.69	0.69	[ICRA]A(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Gonzales 12 2021	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
Gonzales 12 2021	PTC Series A1	December 2021	9.75%	June 2023	20.95	[ICRA]A+(SO)
	PTC Series A2	December 2021	14.00%	June 2023	0.69	[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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Vishal Oza

+91 22 6114 3432

vishal.oza@icraindia.com

Advait Athavale

+91 22 6114 3433

advait.athavale@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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.