

June 14, 2022

AU Small Finance Bank Limited: Ratings upgraded for PTCs, SLF, and reaffirmed for LF issued under MSME loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial rated amount (Rs. crore)	Amount O/s after last surveillance (Rs. crore)	Amount O/s after Apr-22 payout (Rs. crore)	Rating Action
India Standard Loan Trust XXIX	PTC Series A	98.14	15.20	10.56	[ICRA]AAA(SO); Upgraded from [ICRA]AA(SO)
	Second Loss Facility	3.68	3.26	3.26	[ICRA]A-(SO); Upgraded from [ICRA]BBB(SO)
	Liquidity Facility	0.98	0.98 (0.36 utilized)	0.98 (0.24 utilized)	[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 upgraded for PTC Series A and SLF 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 as of May 2022 payout month has been provided below.

Parameter	India Standard Loan Trust XXIX
Months post securitisation	69
Pool amortisation (%)	88.80%
PTC amortisation (%)	89.69%
Cumulative collection efficiency ¹ (%)	98.72%
Cumulative prepayment (% of initial pool principal)	67.97%
Average monthly prepayment rate	1.64%
Loss-cum-30+ ² (% of initial pool principal)	4.72%
Loss-cum-90+ ³ (% of initial pool principal)	2.13%
Breakeven collection efficiency (%) ⁴	38.62%
Cumulative cash collateral (CC) ⁵ utilisation	0.00%
CC available (as % of balance pool)	53.34%
Excess interest spread (EIS) over balance tenure (as % of balance pool)	20.12%

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

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

- Significant amortization of PTCs resulting in build-up of Credit Collateral (CC) and Excess Interest Spread (EIS) cover available for the balance PTC payouts;
- High CC cover available for the balance PTC payouts in the transaction

Credit challenges

- 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 been good with a cumulative collection efficiency of above 98% (till May 2022 collections). Post the end of the moratorium, monthly collections dropped and ranged between 61% and 90%. 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 been amortised by ~89%, the CC has built up to ~53% of the balance pool principal. Overall, the credit enhancement available for meeting the balance payouts to the investor is sufficient to upgrade/reaffirm the rating for the PTCs. ICRA will continue to 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. Also, the performance of the pools would remain exposed to any fresh disruptions caused by the pandemic. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

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 4.25-4.75%, 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: Superior

Liquidity position is expected to be superior 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 in full.

SLF: Adequate

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

LF: Superior

The liquidity facility 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 factors – The sustained strong collection performance of the underlying pool of contracts, leading to lower-than-expected delinquency levels, and an increase in the cover available for future payouts from the credit enhancement would result in a rating upgrade for the second loss facility.

Negative factors – Given the high CC build-up, pressure on the ratings could emerge if there is significant decline in 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 trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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

About the company

AU is a scheduled commercial bank, which has transitioned from an asset financing NBFC to an SFB. While it was incorporated in 1996 as an NBFC, it commenced SFB operations on April 19, 2017. AU has an established market position in Rajasthan, and has expanded operations to Maharashtra, Gujarat, and other states over the years. As of March 31, 2022, it had 902 touchpoints and 17 business centers across 18 states & 2 UTs.

AU operates in the retail asset financing segment. Its product portfolio also includes MSME and SME financing, construction finance, loans to NBFCs, business banking, gold loans, home loans, agri-SME loans, unsecured personal loans (PL) and consumer durables (CD). AU'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.

During its early years of operations, AU (formerly Au Financiers (India) Limited) was primarily engaged in vehicle financing through funds raised from high net worth individuals in Jaipur. Over the years, the company raised equity from private investors at regular intervals and expanded its product portfolio. In September 2015, the Reserve Bank of India (RBI) granted in-principle approval to AU for setting up an SFB. On December 20, 2016, AU got the final license and it converted into an SFB on April 19, 2017. Further, the bank got listed on stock exchanges in July 2017 and was granted scheduled commercial bank status in November 2017.

AU reported a profit after tax (PAT) of Rs. 1,130 crore on a total asset base of Rs. 69,078 crore in FY2022 compared to PAT of Rs. 600 crore on a total asset base of Rs. 51,591 crore in FY2021. Further, AU achieved PAT of Rs. 346 crore in Q4 FY2022 compared to Rs. 169 crore in the corresponding period in the previous year. As of March 31, 2022, the net worth stood at Rs. 7,514 crore with a reported capital adequacy of 21.0%.

Key financial indicators

AU Small Finance Bank Limited	FY2020	FY2021	FY2022
Profit after tax	675	600^	1,130
Assets under management	30,893	37,712	47,831
Total assets	42,143	51,591	69,078
% Gross NPA	1.7%	4.3%*	2.0%
% Net NPA	0.8%	2.2%	0.5%

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%; ^financials for FY21 exclude gains from stake sale in Aavas Financiers Limited and associated provisioning thereof.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 14, 2022	June 29, 2021	June 29, 2020	March 22, 2019
1	India Standard Loan Trust XXIX	PTC Series A	98.14	10.56	[ICRA]AAA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)
		Second Loss Facility	3.68	3.26	[ICRA]A-(SO)	[ICRA]BBB(SO)	[ICRA]BBB(SO)	[ICRA]BBB(SO)
		Liquidity Facility	0.98	0.98 (0.24 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	10.56	[ICRA]AAA(SO)
	Second Loss Facility		-		3.26	[ICRA]A-(SO)
	Liquidity Facility		-		0.98 (0.24 utilised)	[ICRA]AAA(SO)

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

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

Advait Athavale

+91 22 6114 3433

advait.athavale@icraindia.com

Sushant Vanmali

+91 22 6114 3433

sushant.vanmali@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Mrugesh Trivedi

+91 22 6114 3436

mrugesh.trivedi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@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:

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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



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