

July 04, 2022

Namra Finance Limited: Provisional [ICRA]A-(SO) assigned to PTC Series A1 issued by Sheryl 06 2022, backed by a pool of microloan receivables

Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|----------------|---------------|----------------------------------|------------------------------------|
| Sheryl 06 2022 | PTC Series A1 | 13.47 | Provisional [ICRA]A-(SO); Assigned |

*Instrument details are provided in Annexure-1

| | |
|--|--|
| Rating in the absence of the pending actions/documents | No rating would have been assigned as it would not be meaningful |
|--|--|

Rationale

ICRA has assigned a Provisional [ICRA]A-(SO) rating to PTC Series A1 under a securitisation transaction backed by microloan receivables originated by Namra Finance Limited (NFL). The pass-through certificates (PTCs) are backed by a pool of Rs. 19.22-crore microloan receivables (underlying pool principal of Rs. 15.66 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement available in the form of (i) a cash collateral (CC) of 5.00% of the pool principal to be provided by the originator, (ii) subordination of 14.00% of the pool principal for PTC Series A1, and (iii) subordination of the entire excess interest spread (EIS) in the structure. The provisional rating is also based on the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and CC
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- Geographically concentrated pool at state level with the top three states having ~68% 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's performance would be exposed to political and communal risks
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 14.00% of the pool principal (includes equity tranche and over-collateralisation). Further credit support is available in the form of an EIS of 13.27% for PTC Series A1. A CC of 5.00% of the initial pool principal, to be provided by NFL, would act as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC to meet the shortfall.

As per the transaction structure, Equity tranche PTC payouts are completely subordinated to PTC Series A1. The collections from the pool, after making the promised interest payouts to PTC Series A1, will be used to make the expected principal payouts to PTC Series A1. The entire principal repayment to PTC Series A1 is promised on the scheduled maturity date. Equity Tranche payouts are completely subordinated to PTC Series A1. Post the maturity of PTC Series A1, payouts are made towards expected payment for redemption of the Equity Tranche PTCs. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on a monthly basis.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that have low seasoning with a weighted average seasoning of ~4 months and relatively low pre-securitisation amortisation of ~12%. The geographical concentration of the loan contracts in the current pool is high with the top 3 states and the top 5 districts constituting ~68% and ~25%, respectively, of the pool principal.

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.

Past rated pools performance: ICRA has rated five standalone PTC transactions of NFL till date. The live pools have shown a high cumulative collection efficiency of more than 100% (including advances) and low delinquencies with the loss-cum-0+ days past due (dpd) in the range of 0.3% to 1.3% with nil CC utilisation as of the May 2022 payout.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the 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 performance of the originator's portfolio as well as the 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 5.00-6.00% 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 holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors. The available CC would meet the promised interest payouts for five months for PTC Series A1.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

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

Analytical approach

The rating action is based on the analysis of the performance of NFL's portfolio till March 2022, 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 |

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Power of Attorney
6. Chartered Accountant's (CA) certificate
7. Any other documents executed for the transaction including for the CC

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction, even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the ratings, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

Namra Finance Limited (NFL) is a wholly-owned subsidiary of Arman Financial Services Limited. Microfinance is regulated by the Reserve Bank of India (RBI), which allows only non-banking financial companies-microfinance institutions (NBFC-MFIs) to conduct microfinance operations. Hence, a wholly-owned structure was set up for NFL. NFL's operations are spread across central and western India in the states of Gujarat, Madhya Pradesh, Uttar Pradesh, Uttarakhand, Maharashtra, Rajasthan, Haryana and Bihar. Lending is done with a ticket size of Rs. 35,000 through cashless transfers into the borrower's bank account. The company mainly lends to women borrowers through joint liability groups (JLGs). As of March 31, 2022, the microfinance operations of the Group had 236 branches spread over 107 districts in eight states. The company had 4.0 lakh+ active customers.

Key financial indicators

| | FY2020 (Audited) | FY2021 (Audited) | FY2022 (Audited) |
|-------------------------|---------------------|---------------------|---------------------|
| Total income | 148.4 | 134.0 | 173.0 |
| Profit after tax | 25.2 | 4.9 | 18.5 |
| Assets under management | 621.1 | 642.4 | 1,022.0 |
| Gross NPA% | 0.93% | 4.63% | 3.7% |
| Net NPA% | 0.01% | 2.98% | 0.6% |

Amount in Rs. crore

Source: Company's financial statements, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Trust Name | Current Rating (FY2023) | | | | Chronology of Rating History for the Past 3 Years | | | |
|---|----------------|-------------------------|--------------------------|--------------------------------|--------------------------|---|-------------------------|-------------------------|--|
| | | Instrument | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 | |
| | | | | | July 04, 2022 | - | - | - | |
| 1 | Sheryl 06 2022 | PTC Series A1 | 13.47 | 13.47 | Provisional [ICRA]A-(SO) | - | - | - | |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---------------|----------------------|
| PTC Series A1 | 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 / Sanction | Coupon Rate | Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|----------------|---------------|-----------------------------|-------------|----------------|--------------------------|--------------------------|
| Sheryl 06 2022 | PTC Series A1 | June 2022 | 12.50% | March 2024 | 13.47 | Provisional [ICRA]A-(SO) |

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

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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