

July 28, 2022

**Namra Finance Limited: Provisional [ICRA]A+(SO) assigned to PTC Series A1(a) and Provisional [ICRA]A-(SO) assigned to PTC Series A1(b) issued by MFSL 2022 Lynx, backed by a pool of microloan receivables**

**Summary of rating action**

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
MFSL 2022 Lynx	PTC Series A1(a)	28.74	Provisional [ICRA]A+(SO); Assigned
	PTC Series A1(b)	3.19	Provisional [ICRA]A-(SO); Assigned

\*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents	No ratings would have been assigned as it would not be meaningful
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**Rationale**

ICRA has assigned a Provisional [ICRA]A+(SO) rating to PTC Series A1(a) and a Provisional [ICRA]A-(SO) rating to PTC Series A1(b) 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. 44.81-crore microloan receivables (underlying pool principal of Rs. 36.50 crore).

The provisional ratings are 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 21.25% of the pool principal for PTC Series A1(a) and 12.50% for PTC Series A1(b), and (iii) subordination of the entire excess interest spread (EIS) in the structure. The provisional ratings are also based on the integrity of the legal structure. The ratings are 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 cash collateral
- Absence of overdue contracts as on pool cut-off date

**Credit challenges**

- Geographically concentrated pool at state level with the top three states having ~83% share of pool
- Performance of pool would also 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 first line of support for PTC Series A1(a) in the transaction is in the form of a subordination of 21.25% of the pool principal (includes principal payable to PTC Series A1(b)). After PTC Series A1(a) has been fully paid, subordination of 12.50% of the pool principal (includes equity tranche and over-collateralisation) will be available for PTC Series A1(b). Further credit support is available in the form of an EIS of 12.55% for PTC Series A1(a) and PTC Series A1(b). 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, the equity tranche PTC payouts are completely subordinated to the PTC Series A1 payouts. Till January 10, 2024, the collections from the pool will be used for making the promised interest payouts to PTC Series A1(a) and PTC Series A1(b) on a pari passu basis. After making the promised interest payouts to PTC Series A1(a) and A1(b), collections will be used to make the expected principal payouts to PTC Series A1(a) till its redemption followed by the expected principal payout to PTC Series A1(b). The entire principal repayment to PTC Series A1(a) and PTC Series A1(b) is promised on the scheduled maturity date of the respective tranches. From January 11, 2024 till the final maturity date, the collections from the pool will be used for making the promised interest payouts to PTC Series A1(a) and PTC Series A1(b) on a pari passu basis. After making the promised interest payouts, collections will be utilised for the redemption of PTC Series A1(a) and A1(b) on a pari passu basis. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on a monthly basis.

All prepayment amounts would be passed on to PTC Series A1(a) till January 10, 2024. From January 11, 2024, the prepayment amounts would be passed on to PTC Series A1(a) and PTC Series A1(b) on a pari passu basis for the respective amounts outstanding till complete redemption.

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 low pre-securitisation amortisation of ~12% as on the pool cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top 3 states and the top 5 districts constituting ~83% and ~22%, 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 seven standalone PTC transactions of NFL till date. The live pools have shown high cumulative collection efficiency above 99% (including advances) and low delinquencies with the loss-cum-0+ days past due (dpd) in the range of 0.3% to 1.6% with nil CC utilisation as of the June 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 4.5-5.5% 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 monthly to PTC Series A1(a) and PTC Series A1(b) on a pari passu 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 four months.

## 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 June 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 ratings are 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](http://www.icra.in).

## About the company

Namra Finance Limited is a wholly-owned subsidiary of Arman Financial Services Limited. Microfinance is regulated by the Reserve Bank of India (RBI), which only allows non-banking financial company-microfinance institutions (NBFC-MFIs) to conduct microfinance operations. Hence, a wholly-owned structure was set up at 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. The lending is done with a ticket size of Rs. 35,000 through cashless transfers into the borrowers' bank accounts. NFL lends mainly to women borrowers through joint liability groups (JLGs). As of March 31, 2022, the Group's microfinance operations had 236 branches spread across 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**

Sr No	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 28, 2022	-	-	-
1	MFSL 2022 Lynx	PTC Series A1(a)	28.74	28.74	Provisional [ICRA]A+(SO)	-	-	-
		PTC Series A1(b)	3.19	3.19	Provisional [ICRA]A-(SO)	-	-	-

**Complexity level of the rated instruments**

Instrument	Complexity Indicator
PTC Series A1(a)	Moderately Complex
PTC Series A1(b)	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](http://www.icra.in)

## Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
MFSL 2022 Lynx	PTC Series A1(a)	July 2022	13.05%	April 09, 2024	28.74	Provisional [ICRA]A+(SO)
	PTC Series A1(b)	July 2022	13.55%	April 10, 2024	3.19	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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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](http://www.icra.in)

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