

October 03, 2022

Namra Finance Limited: Rating confirmed as final for PTCs backed by microfinance loan receivables issued by Victor July 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Victor July 2022	PTC Series A1	18.10	[ICRA]A+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In August 2022, ICRA had assigned a Provisional [ICRA]A+(SO) rating to PTC Series A1 issued by Victor July 2022. The pass-through certificates (PTCs) are backed by a pool of Rs. 25.26-crore microfinance loan receivables (underlying pool principal of Rs. 20.57 crore) originated by Namra Finance Limited (NFL). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the performance of the pool after the September 2022 payout month has been provided below.

Parameter	Victor July 2022
Months post securitisation	1
Pool amortisation	4.11%
PTC Series A1 amortisation	5.86%
Cumulative collection efficiency	100.00%
Loss-cum-0+ dpd	0.00%
Loss cum 30+ dpd	0.00%
Cumulative Prepayment rate	0.05%
Cumulative cash collateral (CC) utilisation	0.00%

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 ~70% 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 first line of support for PTC Series A1 in the transaction is in the form of a subordination/over-collateralisation of 12.00% of the pool principal (includes PTC Series A2/equity tranche). Further credit support is available in the form of an EIS of 16.11% for PTC Series A1. A CC of 8.00% 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, PTC Series A2 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 (to the extent of pool principal billing). The entire principal repayment to PTC Series A1 is promised on the scheduled maturity date. The residual cash flows available after making the promised and expected payments would be used to accelerate the amortisation of PTC Series A1. All prepayment amounts would be passed on to PTC Series A1 (till the PTC Series A1 principal is not fully amortised) every month.

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 ~70% and ~18%, 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 ten standalone PTC transactions of NFL till date. The live pools have shown high cumulative collection efficiency above 99% and low delinquencies with the loss-cum-0+ days past due (dpd) in the range of 0.3% to 2.1% with nil CC utilisation as of the August 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 4.0-5.0% 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 while the entire 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 nine 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 actions are 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

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 June 30, 2022, the Group's microfinance operations had 246 branches spread across 107 districts in eight states. The company had 4.4 lakh+ active customers.

Key financial indicators (audited)

	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
					October 03, 2022	August 16, 2022			
1	Victor July 2022	PTC Series A1	18.10	18.10	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	-

Complexity level of the rated instrument

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 I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Victor July 2022	PTC Series A1	August 2022	10.50%	April 2024	18.10	[ICRA]A+(SO)

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

Source: Company

Annexure II: 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.

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