

October 17, 2022

Namra Finance Limited: Rating upgraded for PTCs issued under micro loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Nimbus 2022 MFI Sydney	PTC Series A1	28.28	NA	16.60	Upgraded to [ICRA]AA-(SO) from [ICRA]A(SO)

*Instrument details are provided in Annexure I

Rationale

ICRA has upgraded the rating for the pass-through certificates (PTCs) issued under the securitisation transaction, Nimbus 2022 MFI Sydney, backed by a pool of micro loan receivables originated by Namra Finance Limited (NFL). The rating upgrade is on account of the moderate amortisation in the pool, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts in the transaction. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool.

Pool performance summary

A summary of the performance of the pool till the August 2022 collection month (September 2022 payout) has been tabulated below.

Particulars	Nimbus 2022 MFI Sydney
Months post securitisation	6
Pool amortisation	35.51%
PTC Series A1 amortisation	41.30%
Cumulative collection efficiency ¹	99.12%
Loss-cum-30+ dpd ² (% of initial pool)	1.31%
Loss-cum-90+ dpd ³ (% of initial pool)	0.56%
Cumulative cash collateral utilisation	0.00%
Cumulative prepayment rate	2.14%
Breakeven collection efficiency ⁴ for PTC Series A1	63.82%
Cash collateral (% of balance pool)	9.30%
Principal subordination (% of balance pool) for PTC Series A1	21.72%
Excess interest spread (as % of balance pool) for PTC Series A1	9.87%

Key rating drivers and their description

Credit strengths

- Amortisation of PTCs resulting in build-up of credit enhancement cover available for the balance PTC payouts;

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

² Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 30 days, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 90 days, as a % of Initial Pool Principal

⁴ (Balance Cash flows payable to investor for PTC Series A1 – CC available) / Balance Pool Cash flows

- Healthy collections and low delinquency levels observed in the pool

Credit challenges

- High geographic concentration at state level with the top three states having ~76% share in the balance 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 performance of the pool has been healthy with a cumulative collection efficiency of 99.12% as of the September 2022 payout month. The loss-cum-30+ days past due (dpd) is also low at 1.31% for the pool as of the September 2022 payout month. There has been no CC utilisation in the transaction till date. Healthy collections and healthy pool amortisation of ~36% have led to the build-up of the CE in the pool. The breakeven collection efficiency at the current level is lower compared to the actual collection levels. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the rating 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 accounting for ~76% of the balance 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: ICRA has rated ten standalone PTC transactions of NFL till date. The live pools have shown a high cumulative collection efficiency of more than 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 September 2022 payout.

Key rating assumptions

ICRA's cash flow analysis 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 the coefficient of variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and 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 3.0-4.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 3.0-9.0% 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. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC investors.

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 investor payouts from the CE would result in a rating upgrade.

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

Analytical approach

The rating action is based on the performance of the pool till August 2022 (collection month), the present delinquency levels and the CE available in the pool, and the performance expected over the balance tenure of the pool.

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 mainly lends 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 (audited)

NFL	FY2020	FY2021	FY2022
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 %	0.9	4.6	3.7
Net NPA %	0.0	3.0	0.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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
					Oct 17, 2022	May 11, 2022			
1.	Nimbus 2022 MFI Sydney	PTC Series A1	28.28	16.60	[ICRA]AA-(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Nimbus 2022 MFI Sydney	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 Name	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Nimbus 2022 MFI Sydney	PTC Series A1	Mar-22	10.25%	Nov-23	16.60	[ICRA]AA-(SO)

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

Source: Company

Annexure II: 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



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