

December 09, 2022

## Namra Finance Limited: Ratings upgraded for PTCs issued under microfinance loan securitisation transactions

### 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
GOOD 03 2022	PTC Series A1	29.48	NA	17.06	Upgraded to [ICRA]AA-(SO) from [ICRA]A+(SO)
	PTC Series A2	1.00	NA	1.00	Upgraded to [ICRA]A+(SO) from [ICRA]A-(SO)
Northern Arc 2022 MFI Albany	PTC Series A1(a)	16.27	NA	8.04	Upgraded to [ICRA]AA-(SO) from [ICRA]A(SO)
	PTC Series A1(b)	0.57	NA	0.57	Upgraded to [ICRA]A+(SO) from [ICRA]A-(SO)

\*Instrument details are provided in Annexure I

### Rationale

ICRA has upgraded the ratings for the pass-through certificates (PTCs) issued under the securitisation transactions, GOOD 03 2022 (Good) and Northern Arc 2022 MFI Albany (Albany), backed by pools of microfinance loan receivables originated by Namra Finance Limited (NFL). The rating upgrade is on account of the moderate amortisation in the pools, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts in the transactions. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools.

### Pool performance summary

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

Particulars	Good	Albany
Months post securitisation	8	8
Pool amortisation	37.93%	43.50%
PTC Series A1 amortisation	42.14%	50.58%
PTC Series A2 amortisation	0.00%	0.00%
Cumulative collection efficiency <sup>1</sup>	99.42%	100.10%
Loss-cum-30+ dpd <sup>2</sup> (% of initial pool)	0.84%	0.16%
Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)	0.50%	0.06%
Cumulative cash collateral utilisation	0.00%	0.00%
Cumulative prepayment rate	1.53%	2.60%
Breakeven collection efficiency <sup>4</sup> for PTC Series A1	63.22%	62.21%
Breakeven collection efficiency <sup>5</sup> for PTC Series A1 & A2	68.06%	66.95%
Cash collateral (% of balance pool)	16.11%	8.85%
Principal subordination (% of balance pool) for PTC Series A1	16.11%	24.78%

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

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

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

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

<sup>5</sup> (Balance Cash flows payable to investor for PTC Series A1 and PTC Series A2 – CC available) / Balance Pool Cash flows

Particulars	Good	Albany
Principal subordination (% of balance pool) for PTC Series A2	11.18%	19.47%
Excess interest spread (as % of balance pool) for PTC Series A1	9.34%	8.72%
Excess interest spread (as % of balance pool) for PTC Series A2	8.81%	8.72%

## 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;
- Healthy collections and low delinquency levels observed in the pool

### Credit challenges

- High geographic concentration at state level with the top three states having ~92% and ~84% share in the balance pool for the Good and Albany transactions respectively
- 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.
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

## Description of key rating drivers highlighted above

The performance of both pools has been healthy with a cumulative collection efficiency of 99.42% for Good and 100.10% for Albany as of the November 2022 payout month. The loss-cum-30+ days past due (dpd) is also low at 0.84% for Good and 0.16% for Albany as of the November 2022 payout month. There has been no CC utilisation in both transactions till date. Healthy collections and healthy pool amortisation in both pools have led to the build-up of the CE in the pools. The breakeven collection efficiency at the current level is lower compared to the actual collection level. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the ratings to the current levels in the transactions. ICRA will continue to monitor the performance of the pools. Any further rating actions will be based on the performance of the pools and the availability of CE relative to ICRA's expectations.

The balance pools have high geographical concentration at the state level with the top 3 states accounting for ~92% and ~84%, respectively, of the Good and Albany transactions. The pools would be exposed to the inherent credit risk associated with the unsecured nature of the asset class and their performance would remain exposed to macro-economic shocks/business disruptions. Given the marginal borrower profile, the pools' performance would also be exposed to natural calamities and political and communal risks.

**Performance of past rated pools:** ICRA has rated 10 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+ dpd in the range of 0.3% to 2.1% with nil CC utilisation as of the November 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 the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pools are provided in the table below.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	GOOD 03 2022	2.50%-3.50%	3%-9% p.a.
2	Northern Arc 2022 MFI Albany	2.00%-3.00%	3%-9% p.a.

## Liquidity position

### Strong for both tranches of Good 03 2022 pool

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. After PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and 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.

### Strong for both tranches of Northern Arc 2022 MFI Albany pool

As per the transaction structure, only the interest amount is promised monthly to the PTC Series A1(a) and PTC Series A1(b) on pari passu basis while the principal amount is promised on the scheduled maturity date of the transaction for respective tranches. The collections 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 of contracts (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 pools till October 2022 (collection month), the present delinquency levels and the CE available in the pools, and the performance expected over the balance tenure of the pools.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the originator

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 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 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 8 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

Trust Name	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years		
				Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Dec 09, 2022	May 11, 2022			
GOOD 03 2022	PTC Series A1	29.48	17.06	[ICRA]AA-(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-
	PTC Series A2	1.00	1.00	[ICRA]A+(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

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				Dec 09, 2022	May 11, 2022	Apr 04, 2022			
Northern Arc 2022 MFI Albany	PTC Series A1(a)	16.27	8.04	[ICRA]AA-(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-	-
	PTC Series A1(b)	0.57	0.57	[ICRA]A+(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	-

#### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
GOOD 03 2022	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
Northern Arc 2022 MFI Albany	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: [Click Here](#)

#### Annexure I: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
<b>GOOD 03 2022</b>	PTC Series A1	March 2022	9.80%	November 2023	17.06	[ICRA]AA-(SO)
	PTC Series A2	March 2022	13.00%	November 2023	1.00	[ICRA]A+(SO)
<b>Northern Arc 2022 MFI Albany</b>	PTC Series A1(a)	March 2022	10.50%	November 25, 2023	8.04	[ICRA]AA-(SO)
	PTC Series A1(b)	March 2022	14.00%	November 26, 2023	0.57	[ICRA]A+(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

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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.

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### Branches



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