

December 30, 2022

Annapurna Finance Private Limited: Provisional [ICRA]AA(SO) assigned to Series A1 PTC and Provisional [ICRA]A+(SO) assigned to Series A2 PTC backed by microfinance loan receivables issued by Nimbus 2022 MFI Eternals

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Nimbus 2022 MFI Eternals	Series A1 PTC	59.50	Provisional [ICRA]AA(SO); Assigned
	Series A2 PTC	2.09	Provisional [ICRA]A+(SO); Assigned

**Instrument details are provided in Annexure I*

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

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Annapurna Finance Private Limited {AFPL; rated [ICRA]A- (Stable)}. The PTCs are backed by a pool of Rs. 69.59-crore (principal amount; receivables of Rs. 82.48 crore) microfinance loan receivables.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts. Credit enhancement is available in the form of (i) a cash collateral (CC) of 8.00% of the pool principal to be provided by AFPL (originator), (ii) principal subordination (14.50% of the initial pool principal for Series A1 PTC and 11.50% for Series A2 PTC) and (iii) the entire excess interest spread (EIS) of 13.24% of the initial pool principal for Series A1 PTC and 12.75% for Series A2 PTC in the structure, as well as the integrity of the legal structure. The provisional ratings are subject to the fulfilment of all the conditions under the structure, due diligence audit of the pool, review by ICRA of the documentation pertaining to the transaction, and the furnishing of a legal opinion on the transaction to ICRA by AFPL.

Key rating drivers

Credit strengths

- One of the largest players in microfinance industry with established track record
- Availability of credit enhancement in the form of EIS, over-collateralisation and CC
- Moderate seasoning (average of ~6 months) and amortisation (~19% pre-securitisation) profile as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing more than 70% to the initial pool principal
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; performance of the pool could remain exposed to macro-economic shocks/business disruptions
- 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

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The collections from the pool, after making the promised interest payouts to Series A1 PTC, will be used to make the expected principal payouts to Series A1 PTC (to the extent of the monthly pool principal billed), followed by the expected interest payouts to Series A2 PTC. Post the maturity of Series A1 PTC, interest payouts will be promised to Series A2 PTC and excess cash flows, after meeting the promised Series A2 PTC interest payouts, will be passed on for the expected Series A2 PTC principal payout (to the extent of monthly pool principal billed). The entire principal repayment to Series A1 PTC and Series A2 PTC is promised on the scheduled maturity date (July 17, 2024). The balance cash flows, after making the promised and expected payments, would be passed on to the residual beneficiary.

The first line of support for Series A1 PTC in the transaction is in the form of a principal subordination of 14.50% of the initial pool principal (includes the principal payable to Series A2 PTC). After Series A1 PTC has been fully paid, over-collateralisation of 11.50% of the initial pool principal could be available for Series A2 PTC. Further credit support is available in the form of an EIS. After meeting the promised and expected payouts, the EIS will be passed on to the originator on a monthly basis. However, on the occurrence of predefined trigger events, the residual EIS every month shall be utilised for accelerating the principal payment due to Series A1 and Series A2 PTCs. A CC of 8.00% of the initial pool principal (Rs. 5.57 crore), to be provided by AFPL, 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.

There are no overdues in the pool as on the cut-off date. The pool has moderate pre-securitisation amortisation at 19% as on the cut-off date. Geographical concentration is high with contracts from the top 3 states (Odisha, Bihar and Madhya Pradesh) contributing more than 70% to the initial pool principal amount. At the district level, contracts from the top 5 districts account for 16% of the initial pool principal amount. The company had witnessed an increase in delinquencies at the portfolio level following the onset of the Covid-19 pandemic. Given the unsecured nature of the asset class, the performance of the pool could remain exposed to macro-economic shocks/business disruptions going forward. The performance of the pool would also be exposed to political and communal risks as well as natural calamities that may impact the income-generating capability of the borrower.

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 4.75-5.75% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 2.4-9.0% (with a mean of 6.0%) per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the Series A1 PTC holders on a monthly basis while the entire principal amount is promised on the final maturity date of the transaction. After Series A1 PTC is fully paid, the interest amount is promised to the Series A2 PTC holders on a monthly basis and the entire principal amount is promised on the final 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 the PTC investors.

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 (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 AFPL's portfolio till September 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 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. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

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 ratings 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 ratings will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

AFPL, formerly known as Annapurna Microfinance Private Limited (AMPL), is promoted by People's Forum, a society registered in Odisha. People's Forum has been engaged in various socio-economic development programmes, including microfinance, since 1990. In November 2009, People's Forum acquired a non-banking financial company (NBFC), Gwalior Finance and Leasing Company Private Limited, which was renamed AMPL in February 2010.

The company provides microcredit for mostly income-generating activities to women borrowers using the group lending model. It also offers other products such as home and home improvement loans, consumer durable loans, corporate loans,

etc. As on September 30, 2022, AFPL was catering to more than 23 lakh borrowers through a network of 1,120 branches spread across 376 districts in 20 states, while managing a portfolio of Rs. 7,323 crore.

Key financial indicators (audited)

	FY2021	FY2022	H1 FY2023*
Total income	977	1,153	732
Profit after tax	2	17	31
Total managed assets	6,754	8,983	9,978
Gross non-performing assets (NPA)	7.3%	10.0%	8.0%
Net NPA	3.0%	2.9%	3.1%

Source: Company, ICRA Research; * Provisional numbers; 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	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Dec 30, 2022	-	-	-
1 Nimbus 2022 MFI Eternals	Series A1 PTC	59.50	59.50	Provisional [ICRA]AA(SO)	-	-	-
	Series A2 PTC	2.09	2.09	Provisional [ICRA]A+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 PTC	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	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Nimbus 2022 MFI Eternals	Series A1 PTC	December 2022	9.00%	July 2024	59.50	Provisional [ICRA]AA(SO)
	Series A2 PTC		12.00%		2.09	Provisional [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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