

August 09, 2023

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
Sheryl 06 2022	PTC Series A1	13.47	NA	4.73	[ICRA]A+(SO); Upgraded from [ICRA]A-(SO)
MFSL 2022 Lynx	PTC Series A1(a)	28.74	NA	10.15	[ICRA]AA-(SO); Upgraded from [ICRA]A+(SO)
	PTC Series A1(b)	3.19	NA	3.19	[ICRA]A+(SO); Upgraded 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, Sheryl 06 2022 and MFSL 2022 Lynx, backed by pools of microfinance loan receivables originated by Namra Finance Limited (NFL). The ratings upgrade is on account of the significant 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.

A summary of the performance of the pools till the May 2023 collection month (June 2023 payout) has been tabulated below.

Pool performance summary (till June 2023 payout month)

Particulars	Sheryl 06 2022 (Sheryl)	MFSL 2022 Lynx (Lynx)
Months post securitisation	11	10
Pool amortisation	55.82%	50.46%
PTC Series A1 ¹ amortisation	64.90%	64.69%
PTC Series A2 ¹ amortisation	--	0.00%
Cumulative collection efficiency ²	98.21%	98.97%
Loss-cum-30+ dpd ³ (% of initial pool)	2.58%	1.57%
Loss-cum-90+ dpd ⁴ (% of initial pool)	1.69%	0.65%
Cumulative cash collateral utilisation	0.00%	0.00%
Cumulative prepayment rate	6.73%	6.45%
Breakeven collection efficiency ⁵ for PTC Series A1	53.72%	44.76%
Break even collection efficiency for PTC Series A1 & A2	--	60.60%
Cash collateral (CC) (% of balance pool)	11.32%	10.09%
Principal subordination (% of balance pool) for PTC Series A1	47.92%	58.54%
PTC Series A2	--	40.87%

¹ For Lynx transaction, PTC Series A1(a) and A1(b) are considered as PTC Series A1 and A2 for the pool performance summary table

² (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

³ Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 30 days, as a % of Initial Pool Principal

⁴ Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 90 days, as a % of Initial Pool Principal

⁵ (Balance Cash flows payable to investor – CC available)/Balance Pool Cash flows

Particulars	Sheryl 06 2022 (Sheryl)	MFSL 2022 Lynx (Lynx)
Excess interest spread (EIS) ⁶ (% of balance pool) for PTC Series A1	8.18%	7.62%
PTC Series A2	--	7.62%

Key rating drivers and their description

Credit strengths

- Amortisation of PTCs resulting in build-up of CE cover available for the balance PTC payouts.
- Healthy collections and low delinquency levels observed in the pools.

Credit challenges

- High geographic concentration at state level with the top three states having ~67% and ~83% share in the balance pool for the Sheryl and Lynx 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 the pools has been healthy with a cumulative collection efficiency of 98.2% for Sheryl and 98.9% for Lynx as of the June 2023 payout month. The loss-cum-30+ days past due (dpd) has been low and stood at 2.6% for Sheryl and 1.6% for Lynx as of the June 2023 payout month. There has been no cash collateral (CC) utilisation in the transactions till date in any of the payouts. Strong collections and healthy pool amortisation of ~56% and ~50%, respectively, for Sheryl and Lynx have led to significant build-up of the CE in the pool and low breakeven collection efficiency. The average monthly prepayment rate is moderate at 0.6-0.7% for the pools. 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 action will be based on the performance of the pools and the availability of CE relative to ICRA's expectations.

The pools' performance would remain exposed to macro-economic shocks/business disruptions. Given the marginal borrower profile, the performance would also be exposed to natural calamities and political and communal risks.

Performance of past rated pools: ICRA has rated 12 microfinance loan receivable PTC transactions originated by NFL. The live pools have shown high cumulative collection efficiency above 98% and low delinquencies with the loss-cum-90+ dpd at sub-2.0% and nil CC utilisation as of the June 2023 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 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 as given in the table below.

⁶ (Pool Cash flows – Cash flows to PTC investors – Originator's residual share)/Pool Principal outstanding

Sr. No.	Trust Name	Expected Loss (% of initial pool principal)	Prepayment
1	Sheryl 06 2022	2.5-3.5%	3-9% p.a.
2	MFSL 2022 Lynx	2.0-3.0%	3-9% p.a.

Liquidity position: Strong

Sheryl 06 2022: 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. The collections from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC investors.

MFSL 2022 Lynx: 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 for the respective tranches. The collections from the pool and the available CE 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, 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 ratings upgrade.

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

Analytical approach

The rating action is based on the performance of the pools till May 2023 (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	Rating Methodology for Securitisation Transactions
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 and Haryana. Lending is done with an average ticket size of ~Rs. 50,000 through cashless transfers to the borrower's bank account. NFL mainly lends to women borrowers through joint liability groups (JLGs). As of March 31, 2023, the microfinance operations of the Group had 274 branches spread over 119 districts in eight states. The company had 5.4 lakh+ active customers.

Key financial indicators (audited)

	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)
Total income	148.4	134.0	173.0	331.5
Profit after tax	25.2	4.9	18.5	67.2
Assets under management	621.1	642.4	1,022.0	1,628.0
Gross NPA	0.9%	4.6%	3.7%	2.8%
Net NPA	0.0%	3.0%	0.6%	0.1%

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 (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					August 09, 2023	September 07, 2022	July 04, 2022		
1	Sheryl 06 2022	PTC Series A1	13.47	4.73	[ICRA]A+(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

Sr. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					August 09, 2023	September 23, 2022	July 28, 2022		
2	MFSL 2022 Lynx	PTC Series A1(a)	28.74	10.15	[ICRA]AA-(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-
		PTC Series A1(b)	3.19	3.19	[ICRA]A+(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

Complexity level of the rated instrument

Transaction	Instrument	Complexity Indicator
Sheryl 06 2022	PTC Series A1	Moderately Complex
MFSL 2022 Lynx	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 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	Final Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sheryl 06 2022	PTC Series A1	June 2022	12.50%	March 2024	4.73	[ICRA]A+(SO)
MFSL 2022 Lynx	PTC Series A1(a)	July 2022	13.05%	April 09, 2024	10.15	[ICRA]AA-(SO)
	PTC Series A1(b)	July 2022	13.55%	April 10, 2024	3.19	[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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Branches



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