

February 26, 2024

## Mahindra & Mahindra Financial Services Limited: Rating reaffirmed for PTC issued under vehicle and tractor loan securitisation transaction

### Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/S after Last Surveillance (Rs. crore)	Current Outstanding Amount after Jan-2024 Payout (Rs. crore)	Rating Action
MM Trust Dec-19 II	PTC Series A	1,702.72	154.33	18.51	[ICRA]AAA(SO); Reaffirmed

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) are backed by a pool of small road and transport operator (SRTTO) loans and tractor loans originated by Mahindra & Mahindra Financial Services Limited (MMFSL). The PTCs has witnessed significant amortisation, which has resulted in credit collateral (CC) fully covering the future PTC payouts in the transaction.

A summary of the performance of the pools after the January 2024 payouts has been provided below.

### Pool performance summary

Parameter	MM Trust Dec-19 II
Months post securitisation	49
Pool amortisation (%)	98.91%
Cumulative collection efficiency (%)	110.78%
Cumulative prepayment rate	12.24%
Average monthly prepayment rate	0.27%
Loss-cum-90+ (% of initial pool principal) <sup>1</sup>	1.68%
Loss-cum-180+ (% of initial pool principal) <sup>2</sup>	1.61%
Breakeven collection efficiency (%): PTC Series A	<0%
Cumulative CC utilisation	0.00%
CC available (as % of balance pool)	>100%
EIS over balance tenure (as % of balance pool): PTC Series A	4.71%

### Key rating drivers

#### Credit strengths

- Significant amortisation of the pool resulting in credit collateral fully covering the future PTC payouts.
- Healthy collection efficiency and moderate delinquencies exhibited by the pool.

#### Credit challenges

- Not Applicable

### Description of key rating drivers highlighted above

As per the transaction structure, the promised cash flow schedule for PTC Series A on a monthly basis comprises of interest (at the predetermined yield) on the outstanding PTC principal and the principal to the extent of 100% of the billed pool principal

<sup>1</sup> Calculated as (Principal outstanding on contracts that are more than 90 days past due, plus crystallized losses till date) divided by initial pool principal

<sup>2</sup> Calculated as (Principal outstanding on contracts that are more than 180 days past due, plus crystallized losses till date) divided by initial pool principal

on each payout date. The first line of support for meeting the scheduled PTC payouts is the EIS in the structure. Further credit support is available through CC of Rs 170.27 crore in the form of an unconditional and irrevocable corporate guarantee from MMFSL.

The pool has exhibited a healthy cumulative collection efficiency in excess of 100% till January 2024 payout month. The delinquencies in the softer and harder buckets have declined due to improved collection efforts and the loss-cum 90+ days past due (dpd) and 180+ dpd were 1.7% and 1.6%, respectively. Post the January 2024 payout, the pool and PTCs have amortised 98.9% which has resulted in CC fully covering the future PTC payouts in the transaction. Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the rating at the current level for the transaction.

## 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 considering the past performance of the originator's portfolio and rated pools 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.

## Liquidity position

### Superior

Liquidity position is expected to be superior as the collections from the pool and credit collateral available are covering the entire future payouts.

## Rating sensitivities

**Positive factors** – Not Applicable

**Negative factors** – Weakening on the credit profile of the servicer could exert pressure on the rating.

## Analytical approach

The rating action is based on the performance of the pool till January 2024 (payout month), the present delinquency levels and the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

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 company

Mahindra & Mahindra Financial Services Limited (MMFSL) is a subsidiary of Mahindra and Mahindra Limited (M&M, holding 52.1% stake as on December 31, 2023). Primarily in the business of financing purchase of new and preowned auto and utility vehicles, tractors, cars, commercial vehicles, construction equipment and SME Financing.

MMFSL was incorporated in 1991 and started its operations as a captive financier for M&M vehicles but since 2002-03 it started financing vehicles of other Original Equipment Manufacturers (OEMs) like Maruti Suzuki, Hyundai, Nissan and Tata. The Reserve Bank of India, under Scale Based Regulations (SBR), had categorised the company in Upper Layer (NBFC-UL) vide its press release dated 30 September 2022. As on December 31, 2023, the company had 1,369 offices covering 27 states and 7

union territories in India with over 9.8 million vehicle finance customer contracts since inception. As of December 31, 2023, MMFSL, had a total loan book of Rs. 93,392 crore.

#### Key financial indicators

	FY2022	FY2023	9M FY2024
Total Income (Rs. Crore)	9,719	11,056	9,856
Profit after tax (Rs. Crore)	989	1,984	1,141
Total assets (Rs. Crore)	75,289	96,217	108,269
% Net profit/Average total assets (%)	1.3%	2.3%	1.5%
Gearing (times)	3.6	4.4	4.9
% Gross stage 3 (%)	7.7%	4.5%	4.0%
% CRAR (%)	27.8%	22.5%	18.3%

Source: Company data, ICRA Research; 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	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	
					Feb 26, 2024			Feb 26, 2021	Jun 29, 2020
1	MM Trust Dec-19 II	PTC Series A	1,702.72	18.51	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

#### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
MM Trust Dec-19 II	PTC Series A	Simple

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
MM Trust Dec-19 II	PTC Series A	December 2019	6.89%	November 2024	18.51	[ICRA]AAA(SO)

\* The actual tenure is likely to be shorter owing to prepayments and accelerated amortisation  
Source: Company

#### Annexure II: List of entities considered for consolidated analysis

Not applicable

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