

March 20, 2024

## Arthan Finance Private Limited: Rating confirmed as final for PTCs backed by secured MSME loan receivables issued by 2023 SBL MISSOURI

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
2023 SBL MISSOURI	Series A PTC	5.42	[ICRA]BBB(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

In January 2024, ICRA had assigned a Provisional [ICRA]BBB(SO) rating to the Series A pass-through certificates (PTCs) issued under a securitisation transaction originated by Arthan Finance Private Limited {Arthan/Originator}. The PTCs are backed by a pool of Rs. 5.71-crore (principal amount; receivables of Rs. 8.98 crore) secured MSME loan receivables. Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the performance of the pool after the February 2024 payout month has been provided below.

Parameter	2023 SBL MISSOURI
Months post securitisation	2
Pool amortisation	6.76%
PTC Series A1 amortisation	9.50%
Cumulative prepayment rate	3.53%
Cumulative collection efficiency	100%
Loss cum 0+ dpd	0.0%
Loss cum 30+ dpd	0.0%
Loss cum 90+ dpd	0.0%
Cumulative cash collateral utilisation	0.0%

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of CC, EIS and subordination
- There are no overdue contracts in the pool as on the cut-off date
- ~94% contracts in the pool are backed by residential properties as on the cut-off date

#### Credit challenges

- High geographical concentration with top state account around ~67% of the initial pool
- Limited track record of company's portfolio with major book building done in the last two years
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions

## Description of key rating drivers highlighted above

According to the transaction structure, during the tenure of Series A PTC, the collections from the pool will be used to make the promised interest payouts and the expected principal payouts (to the extent of principal billed) to Series A PTC. The collections from the pool, after making the promised interest payouts to Series A PTC, will be used to make the expected principal payouts to Series A PTC. This principal payment, though, is not promised and any shortfall in making the expected principal payment to Series A PTC would be carried forward to the subsequent payout. All prepayment amounts would be passed on to Series A PTC (till the Series A PTC principal is not fully amortised) every month and its future payouts will be revised accordingly. On each payout date all excess cash flow will be utilised towards PTC Series A principal amortisation.

The first line of support for Series A PTC in the transaction is in the form of a principal subordination of 5% of the initial pool principal. Further credit support is available in the form of an EIS of 39.25% of the initial pool principal for Series A PTC. A CC of 10.00% of the pool principal (i.e. Rs. 0.57 crore) provided by Arthan 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 same.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is 19.02 months<sup>1</sup> with pre-securitisation amortisation of 17.85% as on the cut-off date. The pool has high geographical concentration with the top state (Maharashtra) contributing 67.64% to the initial pool principal amount. At the district level, the top 3 district accounted for 100% of the initial pool principal amount. The performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities, which may impact the income-generating capability of the borrower.

**Past rated pools performance:** This is the first PTC transaction originated by Arthan being rated by ICRA.

## 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 balance 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 past performance of the originator's portfolio and the 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 6.00%-7.00%, with certain variability around it. The average prepayment rate for the underlying pool is estimated at 12.0% per annum.

## Liquidity position: Superior

The liquidity for Series A PTC is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~7 times the estimated loss in the pool.

## Rating sensitivities

**Positive factors** – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency of more than 95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the CE.

<sup>1</sup> Basis number of instalments as shared by the originator

**Negative factors** – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency of less than 90%), leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

## Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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

Arthan Finance Private Limited (AFPL) was incorporated on December 11, 2018. AFPL was established by ex-RBL Bank employees with expertise in sales in retail segment, MSME lending, BC partnerships, credit and strategy as a Non-Deposit taking Non-Banking Finance Company ('NBFC') licensed by the Reserve Bank of India (RBI) with the objective of lending to self-employed entrepreneurs, MSMEs and consumers in India with differentiated models based on new technologies coupled with local expertise.

AFPL is focused on credit/loan availability to budding entrepreneurial customers with digital loan processes and bespoke products catering financial needs of the MSMEs to help grow their businesses. The client base include business like Kirana Stores, Hotels and restaurants, Pharmcies, Hardware Shops, Servicing Garages, Small manufacturers and Food processors, Retail and Wholesale traders etc.

## Key financial indicators (standalone)

AFPL	FY2021	FY2022	FY2023	H1 FY2024
	Audited	Audited	Audited	Provisional
Total income	3.27	8.03	26.34	25.82
Profit after tax	-2.83	-1.37	-2.96	-0.62
AUM	17.54	45.94	111.43	114.42
Gross Stage 3	0.16	1.07	3.23	5.06
CRAR	64.26%	42.92%	21.03%	21.28%

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	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Mar 20, 2024	Jan 05, 2024			
1	2023 SBL MISSOURI	Series A PTC	5.42	5.42	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A 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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
<b>2023 SBL MISSOURI</b>	Series A PTC	December 2023	13.50%	August 2029	5.42	[ICRA]BBB(SO)

Source: Company

\*Based on scheduled maturity of the pool contracts; may change on account of prepayment

#### 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.

For more information, visit [www.icra.in](http://www.icra.in)

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