

April 02, 2024

Arthan Finance Private Limited: Provisional [ICRA]BBB(SO) assigned to Series A1 PTC backed by secured business loan receivables issued by Jade 03 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Jade 03 2024	Series A1 PTC	5.78	Provisional [ICRA]BBB(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 a provisional rating to the Series A1 PTCs issued under a securitisation transaction originated by Arthan Finance Private Limited {Arthan/originator}. The pass-through certificates (PTCs) are backed by a pool of Rs. 6.22-crore (principal amount; receivables of Rs. 9.14 crore) small business loan receivables originated by Arthan.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 10.00% of the pool principal to be provided by the originator, (ii) subordination of 7.00% of the pool principal, (iii) excess interest spread (EIS) of 24.83% of the initial pool principal in the structure as well as the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of all the documentation pertaining to the transaction.

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
- ~98% 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 ~72% 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 A1 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 A1 PTC. 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. This principal payment, though, is not promised and any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payout. All prepayment amounts would be passed on to Series A1 PTC (till the Series A1 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 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 7.00% of the initial pool principal. Further credit support is available in the form of an EIS of 24.83% of the initial pool principal for Series A1 PTC. A CC of 10.00% of the pool principal (i.e. Rs. 0.62 crore), to be provided by Arthan, would act as further CE 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 12.20 months¹ with pre-securitisation amortisation of 16.13% as on the cut-off date. The pool has high geographical concentration with the top state (Andhra Pradesh) contributing 72.76% to the initial pool principal amount. At the district level, the top 3 districts accounted for 65.44% 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 pool performance: Till date, ICRA has rated one standalone pass-through certificate (PTC) transaction of Arthan. The performance of the live pool, as of the February 2024 payout month, has shown a monthly collection efficiency of 100% with nil CC utilisation.

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 5.25-6.25%, with certain variability around it. The average prepayment rate for the underlying pool is estimated at 12.0% per annum.

Liquidity position: Strong

The liquidity for the instrument in the transaction is strong after factoring in the CE available to meet the promised payouts to the investors. The total CE would be ~5.25 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 >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement.

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

¹ Basis number of instalments as shared by the originator

Analytical approach

The rating action is based on the analysis of the performance of Arthan's portfolio till December 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE 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 rating is 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 rating 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 rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

Arthan Finance Private Limited was incorporated on December 11, 2018. It was established by ex-RBL Bank employees with expertise in sales in the retail segment, micro, small and medium enterprise (MSME) lending, business correspondent (BC) partnerships, credit and strategy. Arthan was set up as a non-deposit taking non-banking financial 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.

Arthan is focused on credit/loan availability to budding entrepreneurial customers with digital loan processes and bespoke products catering to the financial needs of MSMEs to help grow their business. The client base includes businesses like kirana stores, hotels and restaurants, pharmacies, hardware shops, servicing garages, small manufacturers and food processors, retail and wholesale traders, etc.

Key financial indicators

Arthan	FY2021	FY2022	FY2023	9MFY2024
	Audited	Audited	Audited	Provisional
Total income (Rs Cr)	3.27	8.03	26.34	25.82
Profit after tax (Rs Cr)	-2.83	-1.37	-2.96	-0.62
AUM (Rs Cr)	17.54	45.94	111.43	114.42
Gross Stage 3	0.93%	2.48%	2.90%	4.42%
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

Trust Name	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				April 02, 2024	-	-	-
Jade 03 2024	Series A1 PTC	5.78	5.78	Provisional [ICRA]BBB(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 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 Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Jade 03 2024	Series A1 PTC	March 2024	14.15%	June 2028	5.78	Provisional [ICRA]BBB(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sumit Pramanik

+91 22 6114 3462

sumit.pramanik@icraindia.com

Pratik Vora

+91 22 61143438

pratik.vora@icraindia.com

Sheetal Nayak

+91 22 6114 3420

sheetal.nayak@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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