

July 04, 2024

Arthan Finance Private Limited: Rating confirmed as final for PTCs backed by secured MSME 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	[ICRA]BBB(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA had assigned a provisional rating to the Series A1 pass-through certificates (PTCs) issued by Jade 03 2024 under a securitisation transaction originated by Arthan Finance Private Limited (Arthan/Originator). The PTCs are backed by a pool of secured micro, small and medium enterprise (MSME) loan receivables with an aggregate principal outstanding of Rs. 6.22 crore (pool receivables of Rs. 9.14 crore). 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.

Pool performance summary

Parameter	Jade 03 2024
Payout month	June 2024
Months post securitisation	3
Pool amortisation	7.83%
Series A1 PTC amortisation	8.42%
Average prepayment rate	2.19%
Cumulative collection efficiency ¹	99.65%
Loss-cum 0+ days past due (dpd) ²	0.63%
Loss cum 30+ dpd ³	0.63%
Loss cum 90+ dpd ⁴	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

¹ Cumulative collections/ (Cumulative billings + Opening overdues at the time of securitisation)

² Principal outstanding on contracts aged 0+ dpd / Principal outstanding on the pool at the time of securitisation

³ Principal outstanding on contracts aged 30+ dpd / Principal outstanding on the pool at the time of securitisation

⁴ Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

The credit enhancement available in the structure is in the form of (i) a CC of 10.00% of the initial pool principal, amounting to Rs. 0.62 crore, provided by the Originator, (ii) subordination of 7.00% of the initial pool principal for Series A1 PTC, and (iii) EIS of 24.83% of the initial pool principal for Series A1 PTC.

Key rating drivers

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 167 contracts, with top 10 contracts forming ~12% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, none of the contracts in the pool have ever been delinquent, which is a credit positive.

Majority of the contracts backed by residential properties – A major part of the pool, i.e. 98% of its contracts in terms of the principal amount outstanding on the cut-off date, is backed by residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top state, i.e. Andhra Pradesh, contributing ~73% to the initial pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Limited track record of the Originator - The Originator, which would also be servicing the loans in the transaction, has a limited track record with major book building done in the last two years.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 5.75%, with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Jade 03 2024
Originator	Arthan Finance Private Limited
Servicer	Arthan Finance Private Limited
Trustee	Catalyst Trusteeship Limited
CC-holding Bank	RBL Bank
Collection and payout account Bank	ICICI Bank

Liquidity position: Strong

The liquidity for the instrument in the transaction is strong after factoring in the credit enhancement available to meet the promised payouts to the investors. The total credit enhancement 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 (Arthan) 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	Rating Methodology for Securitisation Transactions
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, Pharmacies, Hardware Shops, Servicing Garages, Small manufacturers and Food processors, Retail and Wholesale traders etc.

Key financial indicators (standalone)

AFPL	FY2022	FY2023	FY2024
	Audited	Audited	Provisional
Total income	8.03	26.34	33.76
Profit after tax	-1.37	-2.96	-3.30
AUM	45.94	111.43	124.84
Gross Stage 3	2.48%	2.90%	4.42%
CRAR	42.92%	21.03%	16.45%

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 (FY2025)		Chronology of Rating History for the Past 3 Years			
			Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					July 04, 2024	April 02, 2024	-	-
1	Jade 03 2024	Series A1 PTC	5.78	5.78	[ICRA]BBB(SO)	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 Name	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
Jade 03 2024	Series A1 PTC	March 30, 2024	14.15%	June 12, 2028	5.78	[ICRA]BBB(SO)

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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