September 30, 2024

Akara Capital Advisors Private Limited: Provisional [ICRA]A(SO) assigned to Series A1 PTC backed by personal loan receivables issued by SPIRIT_2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
SPIRIT_2024	Series A1 PTC	12.63	Provisional [ICRA]A(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

Rationale

The pass-through certificates (PTCs) are backed by a pool of Personal loan receivables originated by Akara Capital Advisors Private Limited {ACAPL/ Originator; rated [ICRA]BBB (Stable)} with an aggregate principal outstanding of Rs. 14.44 crore (pool receivables of Rs. 18.36 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises of 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. However, in case of breach of certain predefined triggers, the residual EIS every month shall be utilised for accelerating the principal payment due to PTC Series A. These include current collection efficiency falling below 95% for two consecutive payouts and/or 90+ days past due of the Pool increasing to 5% of the initial pool principal. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal amounting to Rs. 0.72 crore to be provided by the Originator, (ii) subordination of 12.50% of the initial pool principal for PTC Series A1, and (iii) the EIS of 19.86% of the initial pool principal for PTC Series A1.

Key rating drivers

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 11,795 contracts, with top 10 contracts forming only 1.4% 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 are no overdue contracts as on the cut-off date. Further, none of the contracts in the pool have been delinquent post loan disbursement, thereby reflecting the borrowers' relatively better credit profile, which is a credit positive.

Healthy bureau score of borrowers –Around 99% of the pool has a CIBIL score above 700 while none of the contract are new to credit, which reflects their relatively better credit profile.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz Maharashtra, Uttar Pradesh and Gujarat, contributing 36% 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.

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. The pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recovery from delinquent contracts tends to be lower.

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 6.75% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18.0% 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.

Liquidity position: Strong

The liquidity for the instruments is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~4.75 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%), on a sustained basis, leading to the build-up of credit enhancement cover for the remaining payouts.

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

Analytical approach

The rating action is based on the analysis of the performance of ACAPL's portfolio till June 2024, 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	Standalone

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

Akara Capital Advisors Pvt Ltd (ACAPL) is a Delhi-based non-deposit taking NBFC registered with the Reserve Bank of India (RBI) since 2016. It started operations in 2017. The company primarily provides unsecured short-term personal loans to salaried individuals through web and mobile platforms. It was started by Mr. Tushar Aggarwal, Ms. Shruti Aggarwal and Mr. Parikshit Chitalkar, who have several years of experience in the financial services industry. ACAPL is currently owned by Morus Technologies, a Singapore-based neobanking start-up backed by investors like Tencent, Blowfish Ventures, Divine Blessings, Altara Ventures, Uncorrelated Ventures, etc. In terms of management bandwidth, the company has strengthened the second line of management and hired experienced professionals from the industry.

ACAPL is a 99.99% subsidiary of Morus Technologies Pte Ltd (holding company incorporated in Singapore; MTPL). The Group has another 100% subsidiary, EQXAPL Analytics Private Limited (EQXAPLAPL), which houses the technology platform known as StashFin and sources leads. The technology platform is used by ACAPL and other co-lenders for lending to customers.

Key financial indicators

ACAPL (Standalone)	FY2023	FY2024	Q1 FY2025*
Total income	216	784	183
Profit after tax	8	69	50
Total Assets	1,871	1,996	1,920
Gross Stage 3	6.7%	4.0%	4.1%
Net NPA	29.0%	31.7%	34.9%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Provisional*

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)	Current Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				September 30, 2024	-	-	-
SPIRIT_2024	Series A1 PTC	12.63	12.63	**Provisional [ICRA]A(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 instruments 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 (p.a.p.m.)	Maturity Date	Amount Rated (Rs. Crore)	Current Rating
SPIRIT_2024	Series A1 PTC	September 30, 2024	13.00%	February 17, 2027	12.63	Provisional [ICRA]A(SO)

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

Himanshi Doshi
+91 22 6114 3410
himanshi.doshi@icraindia.com

Diptajyoti Banik
+91 22 61143412
diptajyoti.banik@icraindia.com

Shruti Jain
+91 22 61143472
shruti.jain@icraindia.com

RELATIONSHIP CONTACT

Mr. L Shivakumar
Tel: +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