

July 11, 2025

Arthan Finance Private Limited: Rating upgraded for PTCs issued under a secured MSME loans securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Jade 03 2024	Series A1 PTC	5.78	NA	3.31	[ICRA]BBB+(SO); Upgraded from [ICRA]BBB(SO)

*Instrument details are provided in Annexure I

Rationale

The pass-through-certificate (PTCs) are backed by a pool of secured micro, small & medium enterprise (MSME) loan receivables originated by Arthan Finance Private Limited {Arthan/Originator; rated [ICRA]BB+(Stable)}. Arthan would also act as the servicer for the transaction.

The rating upgrade factors in the build-up of the credit enhancement cover over the future PTC payouts on account of the high pool amortisation and healthy pool performance, although there has been a slight dip in collection in the last few months leading to a minimal increase in delinquencies. The rating also draws comfort from the fact that the breakeven collection efficiency is comfortably lower than the actual collection level observed in the pool till May 2025 payout month.

Pool performance summary

Particulars	Jade 03 2024
Payout month	May-25
Months post securitisation	14
Pool amortisation	39.74%
Series A1 PTC amortisation	42.78%
Cumulative collection efficiency ¹	99.00%
Loss-cum-30+ days past due (dpd) ² (% of initial pool)	3.31%
Loss-cum-90+ dpd ³ (% of initial pool)	1.50%
Cumulative cash collateral (CC) utilisation	0.00%
Cumulative prepayment rate	12.46%
Breakeven collection efficiency ⁴ for Series A1 PTC	63.35%
CC available (as % of balance pool principal)	16.59%
Principal subordination (% of balance pool) Series A1 PTC	11.70%
Excess interest spread (EIS ⁵ ; % of balance pool) Series A1 PTC	19.65%

¹ (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)

² Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 30 days, as a % of initial pool principal

³ Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 90 days, as a % of initial pool principal

⁴ (Balance cash flows payable to Series A PTC investor – CC available)/Balance pool cash flows

⁵ (Pool Cash flows – Cash flows to Series A PTC investors – Originator's residual share)/Pool Principal outstanding

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 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.

Key rating drivers and their description

Credit strengths

Substantial credit enhancement available in the structure – The rating action factors in the build-up in the credit enhancement with the cash collateral increasing to 16.6% of the balance pool principal from 10.0% at the time of securitisation. Internal credit support is also available through principal subordination along with excess interest spread (EIS).

Contracts backed by residential properties – Majority of the contracts in the pool are 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.

Healthy pool performance – Performance of the pool has been strong with cumulative collection efficiency above ~99% till Mar 2025 payout month and break-even collection efficiency comfortably lower than the monthly collection efficiency trend observed in the pool. For the current pool, the loss cum 90+ dpd has been below 1.0% in the last 12 months. Further, there have been no instances of cash collateral utilisation till date owing to strong collection performance and presence of EIS.

Servicing capability of Arthan– The company has demonstrated considerable track record of regular collections and recovery across multiple geographies and economic cycles. It also has satisfactory processes for servicing the loan accounts in the securitised pool.

Credit Challenges

High geographical concentration – The pool has high geographical concentration with the top states, viz. Andhra Pradesh, contributing ~74% to the balance pool principal amount. The pool's performance would thus be exposed to any statewide disruption that may occur due to natural calamities, political events, etc.

Risk associated with lending business – The pool 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 3.25% of the initial pool principal. 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 transaction is 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: Superior

The liquidity for the instrument in the transaction is superior after factoring in the CE available to meet the promised payouts to the investors. The total CE would be ~7.00 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.

Analytical approach

The rating action is based on the performance of the pool till April 2025 (collection 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	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. It was founded as a non-deposit taking non-banking financial company (NBFC) by ex-RBL Bank employees with expertise in sales in the retail segment, MSME lending, business correspondent (BC) partnerships, credit and strategy. AFPL operates in the secured MSME segment across India's tier 3/4/5 towns in four states through 40 branches as on March 31, 2025. It primarily provides loan against property, predominantly backed by SORP, to businesses like kirana stores, pharmacies, hardware shops, service profiles, small manufacturers, food processors, retail/wholesale traders, agri traders, etc.

Key financial indicators

	FY2023	FY2024	FY2025
	Audited	Audited	Audited
Total income	26.3	33.3	40.1
Profit after tax	-3.0	-3.3	-6.8
Total managed assets	142.8	162.7	262.0
GNPA/Gross stage 3*	3.9%	5.5%	3.8%
CRAR	21.03%	16.4%	28.1%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore, * GNPA as a percentage of AUM stood at 3.06% and 4.43% as on March 31, 2025 and March 31, 2024 respectively

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2026)		Chronology of Rating History for the Past 3 Years				
		Initial Amount Rated (Rs. crore)	Current Amount Rated (Rs. crore)	Date & Rating in FY2026	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023
				Jul 11, 2025	Jul 04, 2024	Apr 02, 2024	-	-
Jade 03 2024	Series A1 PTC	5.78	3.31	[ICRA]BBB+(SO)	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	-	-

Complexity level of the rated instrument

Transaction	Instrument	Complexity Indicator
Jade 03 2024	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	Coupon Rate (p.a.p.m.)	Final Maturity Date	Current Amount Rated (Rs. crore)	Current Rating
Jade 03 2024	Series A1 PTC	March 30, 2024	14.15%	June 12, 2028	3.31	[ICRA]BBB+(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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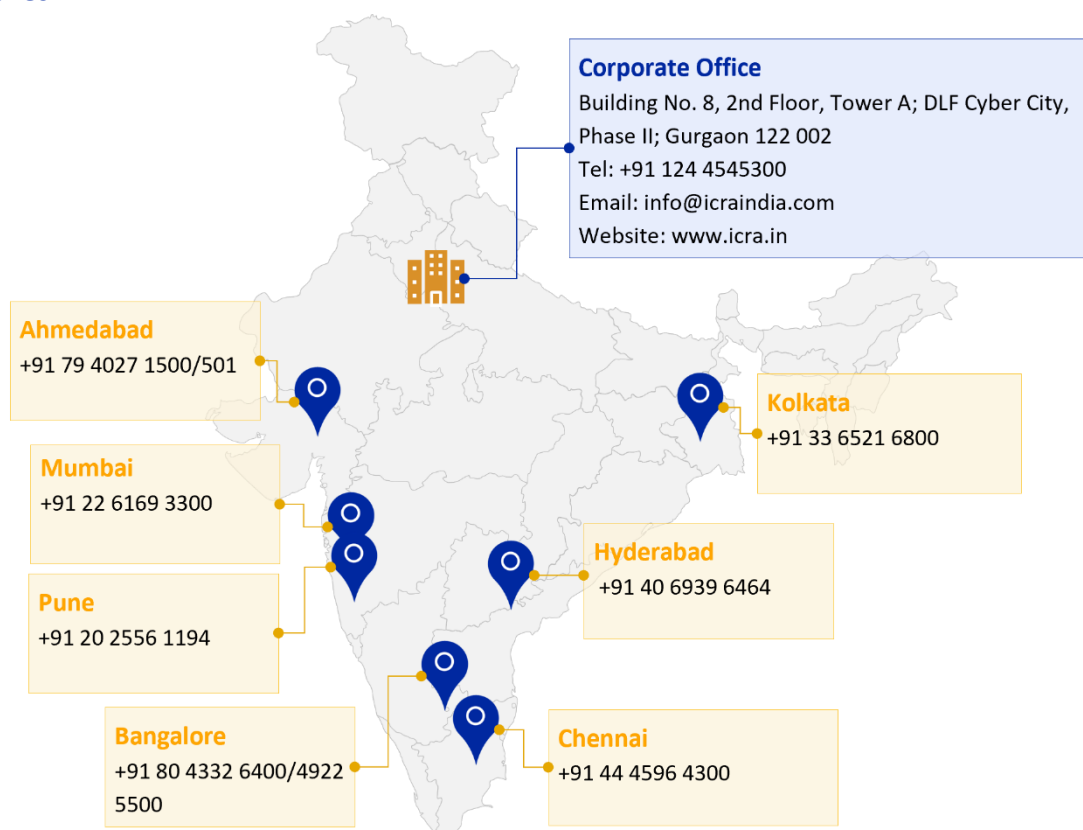


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