January 29, 2021

Northern Arc Capital Limited: Ratings reaffirmed for PTCs issued under securitisation transaction by multiple originators and arranged by Northern Arc Capital Limited

Summary of rating action

Trust Name	Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Northern Arc 2019 Mosec Teesta	PTC Series A1	70.89	5.80	[ICRA]A-(SO); reaffirmed
	PTC Series A2	2.44	2.44	[ICRA]BBB-(SO); reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

ICRA has reaffirmed the ratings for the pass-through certificates (PTCs) issued under a securitisation transactions originated by multiple originators and arranged by Northern Arc Capital Limited. The PTCs are backed by micro-loan receivables. The receivables have been assigned to the Northern Arc 2019 Mosec Teesta Trust at par and the trusts have issued PTCs backed by the same. The rating reaffirmation is on account of the substantial amortisation of the sub-pools and the strong cumulative collection efficiency observed in the transactions. The amortisation has led to a healthy build-up of cover from the outstanding credit enhancements to support the future PTC payouts. Initially, 3 originators were part of the transaction, out which sub-pool of Smile Microfinance Limited has been fully amortised. Subpool of Vaya Finserv Private Limited and Satya MicroCapital Limited are remaining.

Pool Performance summary (till December,2020 payout month)

Particulars	Northern Arc 2019 Mosec Teesta
Months post securitisation	15
Amortization of pool	81.04%
PTC Amortization – PTC A1	91.81%
PTC Amortization – PTC A2	0.00%
Cumulative Collection Efficiency[1]	89.95%
Loss-cum-30+[2] dpd (% of initial pool)	8.09%
Loss-cum-90+ dpd (% of initial pool)	0.24%
30+ dpd[3] (% of balance pool)	20.75%
90+ dpd (% of balance pool)	0.44%
Cumulative Cash Collateral Utilisation	0.00%
Cumulative Prepayment Rate	8.99%
Breakeven Collection Efficiency[4] for PTC A1	13.49%
Breakeven Collection Efficiency for PTC A2	28.36%
Cash Collateral (% of balance pool)	23.38%

[1] *Cumulative collections / (Cumulative billings + opening overdue at the time of securitization)*
[2] *Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a percentage of Initial Pool Principal*
[3] *Inclusive of Unbilled Principal portion of contracts delinquent for more than 30 days, as a percentage of Balance Principal*
[4] *(Balance Cash Flows payable to investor – Cash Collateral available)/ Balance Pool Cash Flows*

Particulars	Northern Arc 2019 Mosec Teesta
Principal Subordination[5] (% of balance pool) for PTC A1	62.43%
Principal Subordination (% of balance pool) for PTC A2	46.60%

Key rating drivers and their description

Credit strengths

- Significantly high amortisation of the sub pools
- Cash collateral proportion has built up significantly to cover the future investor payouts

Credit challenges

- Concentration in sub pools at state and district level
- Performance of sub pools would remain exposed to nationwide lockdown due to Covid-19 outbreak impacting the income generating capability of the borrower, given the marginal borrower profile; further, pool performance would also be exposed to natural calamities, political and communal risks.

Liquidity position

Liquidity position: PTC Series A1: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to investors of both PTC A1.

Liquidity position: PTC Series A2: Adequate

As per the transaction structure, after PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be adequate to meet the promised payouts to the PTC Series A2 investors

Description of key rating drivers highlighted above

The total pool has amortised considerably (~81% post December 2020 payouts). Thus, the CC (as a percentage of the balance PTC payouts) has built up significantly in this transaction. The cumulative collection efficiency has been good (~90% till December 2020 payouts). There has not been any shortfall in the collections to meet the promised interest payouts (principal is promised only at the final maturity date) and thus, there has not been any CC utilisation in these transactions till date. Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the ratings for these transactions. ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for rating ABS transactions involves simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for mean shortfall and the Co-efficient of Variation (CoV) are arrived on the basis of the values observed in the analysis of the Originator's loan portfolio. Additionally, the assumptions may also be adjusted to account for the prevalent macroeconomic situation as well as any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the weighted average expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 4.00% - 5.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 6% - 9% per annum.

Rating sensitivities

Positive factors – The ratings could be upgraded when the cash collateral significantly covers the future payouts

Negative factors – Pressure on the ratings could emerge on a substantial decline in monthly collection efficiency on a sustained basis of the underlying pool contracts, leading to high delinquency levels and decreased cover for the future PTC payouts from the credit enhancements.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Vaya Finserv Private Limited

Vaya Finserv Private Limited, incorporated in March 2014, is a non-banking financial company – microfinance institution (NBFC-MFI) with its registered office in Hyderabad. The company provides microloans under the joint liability group (JLG) model along with credit-linked insurance. VFPL also operates as a business correspondent for RBL Bank and Yes Bank. Its loans qualify for priority sector lending for banks. As on September 30, 2020, the company reported assets under management (AUM) of Rs. 1,145 crore with a presence in 6 states and 99 districts, catering to around 6.36 lakh borrowers through a network of 279 branches.

Key financial indicators (audited)

Company Name	Ind-AS FY2019	Ind-AS FY2020	Ind-AS H1 FY2021*
Total income (Rs. crore)	138.4	193.3	NA
Profit after tax (Rs. crore)	18.9	6.8	5.3
AUM	1,110.5	1,234.4	1,144.6
Net worth (Rs. crore)	189.0	185.7	190.8
Gross NPA (%)	0.1%	0.9%	1.1%
Net NPA (%)	0.1%	0.3%	0.1%

*Source: Company, ICRA Research; * Provisional numbers. All ratios as per ICRA calculations*

2. Satya Microcapital Ltd

Satya MicroCapital Ltd. (formerly known as TFC Finvest Limited) is a Delhi-based NBFC, which was incorporated in 1995. SML started its microfinance operations in November 2016 by adopting the joint liability group (JLG) model with a fortnightly collection cycle. The company primarily offers JLG loans with ticket sizes in the median range of Rs. 25,000 to Rs. 50,000, and individual loans with ticket sizes in the range of Rs. 50,000-Rs. 75,000 at interest rates of 21-25%, along with a processing fee of 1%. SML focusses primarily on lending to women (husbands/sons above 18 years of age act as co-borrowers) aiming to start a new business or enhance an existing business. The operations are spread geographically across 140 districts in 22 states/UTs as on September 30, 2020.

Key financial indicators (audited)

Company Name	FY2019 (Audited IND AS)	FY2020 (Audited IND AS)	H1 FY2021 (Audited IND AS)
Total income (Rs. crore)	101.71	208.61	117.11
Profit after tax (Rs. crore)	-0.26	7.53	3.83
AUM	621.71	1,007.85	954.83
Net worth (Rs. crore)	86.50	171.77	244.02
Gross NPA (%)	0.04%	1.64%	0.78%
Net NPA (%)	0.04%	0.56%	0.00%

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 29, 20201 (Rs. crore)	Date & Rating in	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					Jan 29, 2021	Dec 10, 2019	Oct 07, 2019	-	-
1	Northern Arc 2019 Mosec Teesta	PTC Series A1	70.89	5.80	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-
		PTC Series A2	2.44	2.44	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	-	-

&= Under watch with developing implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

Instrument Name	Date of Issuance	Coupon Rate	Initial Final Maturity Date	Amount Rated (RS Crore)	Current Rating
Northern Arc 2019 Mosec Teesta	October 2019	11.25%	July 2021	5.80	[ICRA]A-(SO)
				2.44	[ICRA]BBB-(SO)

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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.

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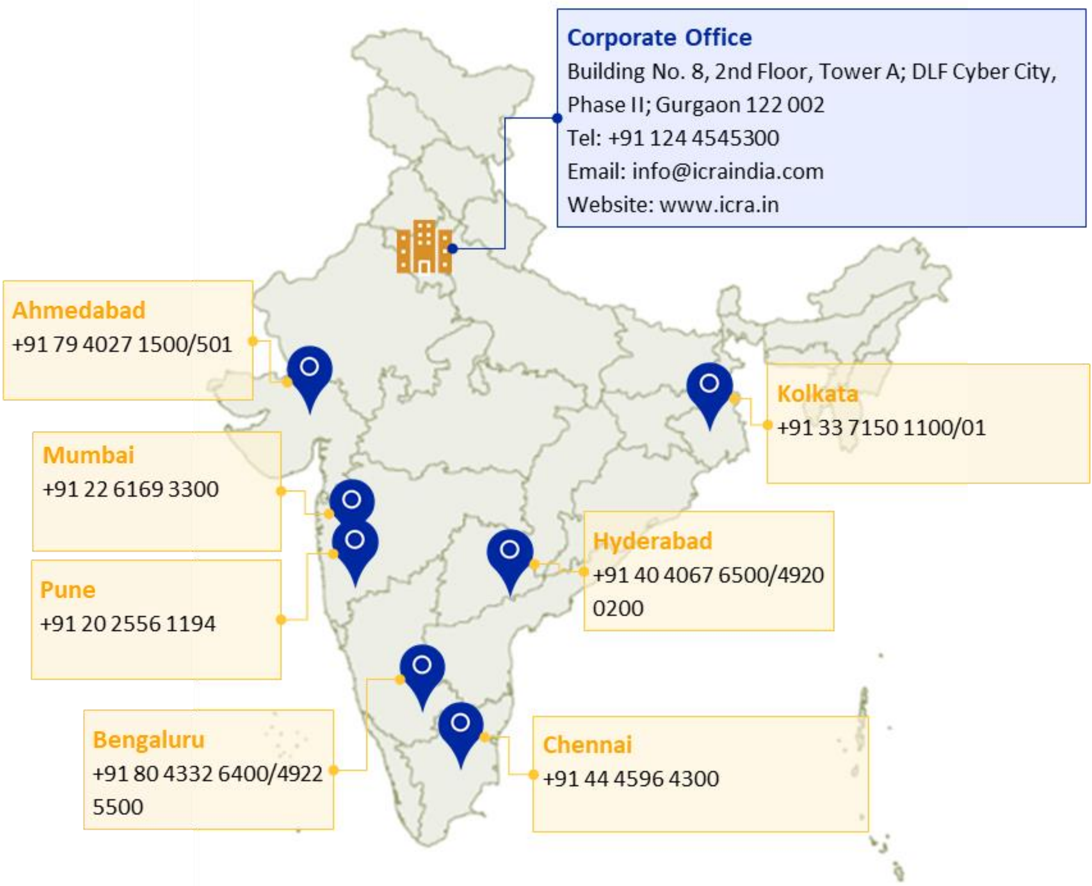

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