

March 18, 2021

Magma Fincorp Limited: Rating reaffirmed for Assignee Payouts issued under one vehicle loan securitisation transaction

Summary of rating action

Transaction Name	Instrument*	Previous Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current outstanding Amount after Feb-21 payouts (Rs. crore)	Rating Action
MFL PSB DA JAN 2020	Assignee payouts	142.40	NA	78.87	[ICRA]AA(SO); reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The Assignee Payouts (AP) issued under MFL PSB DA JAN'2020 transaction originated by Magma Fincorp Limited (MFL) are backed by passenger vehicle (PV), commercial vehicles (CV), construction equipment (CE) and Tractor loan receivables. The rating reaffirmation takes into account the moderate amortisation of the pool and the availability of credit enhancement in the transaction. The amortisation has led to a healthy build-up of cover from the outstanding credit enhancements for future payouts. Nonetheless, the ratings would remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic leading to lower-than-expected collections.

Pool Performance Summary

A summary of the performance of the pool till Jan-21 collection month has been tabulated below.

Parameter	MFL PSB DA JAN'2020
Months post securitisation	13
Assignee payouts amortization (%)	44.61%
Cumulative collection efficiency (%) ¹	93.74%
Average Monthly collection efficiency for last three months	94.20%
Break even collection efficiency ² (%)	70.44%
Loss cum 90+ (% of initial pool principal) ³	1.97%
Loss cum 180+ (% of initial pool principal) ⁴	0.02%
Cumulative prepayment rate ⁵	9.90%
Cumulative CC utilization (% of initial CC)	0.00%
CC available (as % of balance pool)	18.83%
EIS over balance tenure (as % of balance pool)	16.26%

¹ Cumulative collections till date / cumulative billings till date plus opening overdues

² It is the minimum collection efficiency required over the balance tenure to ensure all assignee payouts are met: (Balance Cash flows payable to assignee– Cash collateral available)/ Balance Pool Cash flows

³ POS on contracts aged 90+ dpd + overdues / Initial POS on the pool

⁴ POS on contracts aged 180+ dpd + overdues / Initial POS on the pool

⁵ Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal

Key rating drivers

Credit strengths

- Moderate amortization of pool resulting in build-up of Cash Collateral (CC) and Excess Interest Spread (EIS) cover available for the balance assignee payouts;
- Low delinquency levels exhibited by the pool especially in harder buckets;

Credit challenges

- The balance pool has moderate share of high LTV contracts
- The balance pool has moderate share of high IRR contracts
- Pool performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic

Description of key rating drivers highlighted above

The performance of the pool has been good with cumulative collection efficiency upwards of 93% till January 2021 collection month. The loss cum 90+ dpd in the pool as on February 2021 payouts is low at 1.97%. Till February 2021 payouts, the shortfall in the collections has largely been absorbed by the EIS in the structure. There has been nil CC utilization in the transaction till date. As the pool has undergone moderate amortisation, cash collateral (as % of balance pool) has built up to ~19% in the transaction.

Also, the assignee had provided approval for grant of moratorium to underlying contracts for five months (Apr-20 to Aug-20 collections) in line with the 'Covid-19 Regulatory Package' announced by the Reserve Bank of India on March 27, 2020 and May 22, 2020. This had led to no CC utilisation over the moratorium period.

Overall, the credit enhancement available for meeting balance payouts to the assignee is sufficient to reaffirm the rating at the current rating level in the transaction. ICRA will continue to monitor the performance of the transactions. Any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modeling for surveillance of ABS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for loss and the Coefficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, and also the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

Sr. No	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	MFL PSB DA JAN'2020	3.0%-4.0%	8% - 12% p.a.

Liquidity position: Strong

The liquidity of the rated transaction is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of cash collateral amounting to around 19% of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the cash collateral would cover the shortfalls in the assignee payouts for a period of eight months.

Rating sensitivities

Positive factors – Sustained strong collection performance of the underlying pool contracts (>95%), leading to lower than expected delinquency levels, and on an increase in the cover available for future assignee payouts from the credit enhancement (CE)

Negative factors – Sustained weak collection performance of the underlying pool (Monthly collection efficiency <85%) leading to higher than expected delinquency levels and CE utilization levels

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

Magma Fincorp Limited (formerly MFL Leasing Limited and MFL Shrachi Finance Limited) was incorporated in 1988 and is registered with the Reserve Bank of India (RBI) as an asset-financing non-banking financial company (NBFC). MFL primarily provides finance for commercial vehicles (CVs), construction equipment (CE), passenger cars, used assets, tractors, SME and mortgage assets. While MFL has a long track record in asset-based product financing (CVs, CE, cars, tractors), its SME business gained volume only from FY2014. The company entered mortgage financing in February 2013 and general insurance through a joint venture in October 2012.

In FY2020, MFL recorded a consolidated profit after tax of Rs. 27 crore on a total consolidated asset base of Rs. 15,852 crore compared with a consolidated profit after tax of Rs. 304 crore on a total consolidated asset base of Rs. 17,346 crore in FY2019. In 9M FY2021, Magma reported a consolidated profit after tax of Rs. 89 crore on a total consolidated asset base of Rs. 15,117 crore. Magma reported assets under management of Rs. 15,006 crore as on December 31, 2020. Vehicle loans continued to dominate the portfolio mix at 62% followed by mortgage (28%) and SME (10%). The gross stage 3 asset ratio stood at 6.9% as on December 31, 2020 (vs. 6.4% as on March 31, 2020) and the net stage 3 asset ratio at 4.5% as on December 31, 2020 (vs. 4.2% as on March 31, 2020).

Key financial indicators (audited; consolidated)

Magma Fincorp Limited	FY2019	FY2020	9M FY2021
Total income	2,495	2562	1,179
Profit after tax	304	27	89
Total assets under management	17,028	16,134	15,006
Gearing (times)	4.8	4.4	3.8
% Gross NPA	4.8%	6.4%	3.7%
% Net NPA	3.1%	4.2%	2.4%

Source: Company, ICRA research; All ratios as per ICRA calculation; Amount in Rs. crore

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 (Rs. crore)	Date & Rating in	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
						Mar 18, 2021	Feb 27, 2020		
1	MFL PSB DA JAN'2020	Assignee payouts	142.40	78.87	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-

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 www.icra.in

Annexure-1: Instrument details

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating
MFL PSB DA JAN'2020	Assignee Payouts	January 2020	8.00%	October 2024	78.87	[ICRA]AA(SO)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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