October 12, 2021

Northern Arc Capital Limited: Rating confirmed as final for PTCs backed by micro loan receivables issued by Dirichlet Mosec June 2021

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Dirichlet Mosec June 2021	PTC Series A1	37.73	[ICRA]A-(SO); provisional rating confirmed as final
	PTC Series A2	0.83	[ICRA]BBB+(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure-1*

Rationale

In July 2021, ICRA had assigned a Provisional [ICRA]A-(SO) and Provisional [ICRA]BBB+(SO) rating to PTC Series A1 and PTC Series A2 respectively, issued by Dirichlet Mosec June 2021. The pass-through certificates (PTCs) are backed by a pool of Rs. 49.47 crore gold loan receivables (underlying pool principal of Rs. 41.46 crore) originated by Satya MicroCapital Limited and Vaya Finserv Private Limited and arranged by Northern Arc Capital Limited. 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 ratings have now been confirmed as final.

A summary of the pool performance after the September 2021 payout is shown in the table below:

Parameter	Dirichlet Mosec June 2021
Months post securitisation	3
Pool amortisation	14.42%
PTC Series A1 Amortisation	18.61%
PTC Series A2 Amortisation	0.00%
Cumulative collection efficiency	94.12%
Loss cum 0+ dpd	10.66%
Loss cum 90+ dpd	0.61%
Monthly prepayment rate	0.00%

Key rating drivers

Credit strengths

- Credit enhancement available in the form of principal subordination, EIS and CC
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- High geographical concentration in the pool (contracts from top 3 states forming ~63% and top 5 districts forming ~19% of the total pool)
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

- Performance of the pool would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pool's performance would be exposed to political and communal risks

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 9.0% of the pool principal (includes principal payable to PTC Series A2). After PTC Series A1 has been fully paid, a subordination of 7.0% of the pool principal will be available for PTC Series A2. The EIS shall be utilised to make principal payments to the Series A1 investors and the Series A2 investors in the following manner till both series are fully extinguished:

i) as long as the Series A1 PTCs are live, the EIS shall be utilised to make payments towards the Series A1 principal to the Series A1 investors; and

ii) on the redemption of the Series A1 PTCs in full, the EIS shall be utilised to make payments towards the Series A2 principal to the Series A2 investors.

A CC of 10.00% of the initial pool principal provided by Satya MicroCapital and Vaya Finserv acts as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC to meet the shortfall.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that are less seasoned with a weighted average seasoning of ~24 weeks and a pre-securitisation amortisation of 18.6%. The geographical concentration of the loan contracts in the current pool is high with the top 3 states and the top 5 districts constituting 63.3% and 19.2% of the pool principal, respectively.

Nonetheless, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

Performance of past rated pools: Currently, there are no live ICRA-rated MOSEC transactions. However, recently rated transactions (since FY2019) showed strong performance with nil CC utilisation throughout the tenure of the PTCs. The cumulative collection efficiency was reported at least 90% as on the last payout of the transactions.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the Originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.5-5.5% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 5.0-7.0% per annum.

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 collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors.

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 investors on a monthly basis and the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC Series A2 investors.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement could lead to a rating upgrade.

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

Analytical approach

The rating actions are 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 company

Satya MicroCapital Limited

Satya MicroCapital Limited (formerly known as TFC Finvest Limited) is a Delhi-based non-banking financial company (NBFC), which was incorporated in 1995. Satya MicroCapital 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-Rs. 50,000, and individual loans with ticket sizes in the range of Rs. 25,000-Rs. 2,00,000 at interest rates of 21-28%, along with a processing fee of 1%. Satya MicroCapital 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 with a presence in 160 districts across 21 states/Union Territories as on March 31, 2021.

In FY2021, the company reported a profit after tax (PAT) of Rs. 10.22 crore (Rs. 7.53 crore in FY2020) on assets under management (AUM) of Rs. 1,476.16 crore (Rs. 1,007.85 crore as on March 31, 2020).

Key financial indicators (audited; Ind AS)

	FY2019	FY2020	FY2021
Total income	101.71	208.61	267.22
Profit after tax	(0.26)	7.53	10.22
Gross AUM	621.71	1,007.85	1,476.16
% Gross NPA	0.04%	1.62%	1.54%
% Net NPA	0.04%	0.56%	0.64%

Source: *ICRA Research; All values (in Rs. crore) and ratios are as per ICRA calculations*

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. It is promoted by Vaya Trusts, earlier known as the SKS Mutual Benefit Trusts, and Mr. Vikram Akula who had founded and promoted SKS Microfinance (currently known as Bharat Financial Inclusion Limited), one of the earliest microfinance companies in India. The company provides microloans under the JLG model along with credit-linked insurance. It also operates as a business correspondent for RBL Bank and Yes Bank. Its loans qualify for priority sector lending for banks. The company has operations in 98 districts across 7 states with 279 branches.

Vaya Finserv reported a PAT of Rs. 9.3 crore on a managed portfolio of Rs. 1,139.32 crore as on March 31, 2021 against a PAT of Rs. 6.8 crore on a managed portfolio of Rs. 1,234.37 crore as on March 31, 2020.

Key financial indicators

	FY2019	FY2020	FY2021
Total Income	138.4	193.3	201.3
Profit after tax	18.9	6.80	9.5
Gross AUM	1,109.7	1,234.4	1,139.3
% Gross NPA	0.1%	0.9%	2.8%
% Net NPA	0.1%	0.3%	1.1%

Source: *ICRA Research; All values (in Rs. crore) and ratios are as per ICRA calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					October 12, 2021	July 06, 2021	-	-	-
1	Dirichlet Mosec June 2021	PTC Series A1	37.73	37.73	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	-
		PTC Series A2	0.83	0.83	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)			

Complexity level of the rated instruments

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Dirichlet Mosec June 2021	PTC Series A1	June 2021	9.75%	April 2023	37.73	[ICRA]A-(SO)
	PTC Series A2	June 2021	9.75%	April 2023	0.83	[ICRA]BBB+(SO)

** Scheduled maturity date at transaction initiation; may change on account of prepayments*

Source: *Company*

Annexure-2: 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.

For more information, visit www.icra.in

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