

March 30, 2018

Magma Fincorp Limited

Summary of Rated Instruments

Trust Name	Instrument	Date of Issuance	Initial Issued Amount (Rs. crore ¹)	Rating action
MFL Securitisation Trust LXIV	PTC Series A1	March 2018	56.59	Provisional [ICRA]AA(SO) assigned
	PTC Series A2		3.14	Provisional [ICRA]AA(SO) assigned
	Second Loss Facility		3.14	Provisional [ICRA]BBB-(SO) assigned
	Liquidity Facility		1.05	Provisional [ICRA]AAA(SO) assigned

* Scheduled maturity and average life at transaction initiation; may change on account of prepayment and yield change

Rating Action

ICRA has assigned Provisional [ICRA]AA(SO) rating to PTC Series A1, Provisional [ICRA]AA(SO) rating to PTC Series A2, Provisional [ICRA]BBB-(SO) rating to Second Loss Facility and Provisional [ICRA]AAA(SO) rating to Liquidity Facility (LF) under a securitisation transaction originated by Magma Fincorp Limited (MFL). The PTCs are backed by a pool of Rs. 75.80 crore CV and Tractor loan receivables (underlying pool principal of Rs. 59.73 crore).

Rationale

The provisional ratings assigned are based on the strength of cash flows from the selected pool of contracts; MFL's track record; the available credit enhancement and the integrity of the legal structure. The ratings are subject to fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

MFL would assign to an SPV (Trust) namely MFL Securitisation Trust LXIV, the future receivables arising from selected pool of 1,723 CV and Tractor loan contracts. The transfer would be at par. The Trust will issue two series of PTCs backed by the receivables. The upfront purchase consideration to be paid by PTC A1 to the Trustee will be 94.75% of the pool principal i.e. Rs. 56.59 crore while that payable by PTC A2 to the Trustee will be 5.25% of the pool principal i.e. Rs. 3.14 crore.

¹ 100 lakh = 1 crore = 10 million



Key rating drivers

Credit Strengths

- The first line of support is available for the transaction through subordination of the excess interest spread (EIS) (amounting to around 17.0% of the pool principal amount);
- Further credit support in the transaction is available through Credit Collateral (CC) equivalent to 10.00% of the initial pool principal amount. The credit collateral will be split into First Loss Facility (FLF) amounting to 4.75% of the pool principal amount and Second Loss Facility (SLF) amounting to 5.25% of the pool principal amount.
- The selected pool is characterized by high seasoning profile (weighted average seasoning of ~13.6 months) and absence of any overdue contracts

Credit Weaknesses

- The pool has moderate geographical concentration with top 3 states contributing about 39.3% of overall pool

Description of key rating drivers highlighted above:

The first line of support for meeting any shortfall in scheduled PTC payouts is available in the form of subordination of the excess interest spread (EIS) in the structure (amounting to around 17.0% of the pool principal amount).

Further support is available through credit collateral stipulated at 10.00% of the total pool principal amount (Rs. 5.97 crore). The credit collateral will be split into First Loss Facility (FLF) amounting to 4.75% of the pool principal amount (Rs. 2.84 crore) and Second Loss Facility (SLF) amounting to 5.25% of the pool principal amount (Rs. 3.14 crore). The SLF would be utilized only after the FLF is exhausted.

The selected pool consists of receivables against loans given for financing New CV, Used CV, New Tractor and Used Tractor loans. The pool is characterised by high seasoning (weighted average seasoning of around 13.6 months), moderate LTV (weighted average LTV of around 76.7%) and no overdue contracts. The pool has moderate geographical concentration with the top 3 states contributing about 39.3% of overall pool principal.

Key rating assumptions

ICRA's cash flow modeling 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 current macro economic 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 expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 5.00% - 6.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 8.0% - 12.0% per annum.

Analytical approach:

The rating action is based on the analysis of the past performance of MFL's portfolio and previously rated ICRA pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Links to applicable Criteria

[Rating Methodology for Securitisation Transactions](#)



About the Company:

Magma Fincorp Limited (MFL; formerly known as Magma Leasing Limited and Magma Shrachi Finance Limited) was incorporated in 1989 and is registered with RBI as an Asset Financing NBFC. In early 2007, the Company was merged with Shrachi Infrastructure Limited, an NBFC operating in the retail finance space. As on Dec-17, MFL had a managed book of Rs. 15,252 crore composed of passenger cars /MUVs (24% of portfolio), commercial vehicle (7%), construction equipment (6%), tractor (18%), mortgage (18%), used vehicles (15%), and SME (12%). While MFL has a long track record in core product financing (CV, CE and Car), other high yielding assets like tractor and SME financing were started in FY 2010. In addition to the above mentioned products, the company entered into new business segments like gold loan (started in June 12), General Insurance (Oct-12) and housing finance business (Nov-12) either directly or through its subsidiaries. During FY 2017, MFL (consolidated) reported a profit of Rs.12.7 crore on a total loan asset base of Rs.16,101 crore compared to profit of Rs. 213.5 crore during FY 2016 on a total loan asset base of Rs. 18,183 crore. During Q3 FY2018, Magma (consolidated) reported a profit of Rs 65.0 crore against PAT of Rs 36.5 crore during Q3 FY2017. MFL has long term rating outstanding of [ICRA]AA-(Negative) from ICRA.

In the past, ICRA has rated four vehicle equipment loan pool (with Cars, CVs and CEs as the underlying asset class), one SME loan pool, one vehicle loan pool (with CVs, Cars and Tractors as the underlying asset class) and four car pools originated by MFL. Additionally, ICRA has rated 7 tractor loan pools as well till date for MFL. The performance of 3 car, vehicle and equipment loan pool has been good with loss-cum-180+ dpd level of below 0.6% as on December 2017 collections after pool amortization in the range of 24%-67%. Given the EIS available in the transactions, no credit collateral has been utilized as on December 2017 collection month.

Key Financial Indicators

Figures in Rs. crore	FY2015	FY2016	FY2017
PAT	187	213	13
Net worth	1,655	2,151	2,172
Total assets	14,882	15,523	13,595
Total managed assets	21,174	19,607	17,728
Return on Average assets	1.3%	1.4%	0.1%
Return on average equity	10.7%	10.8%	0.9%
Gearing	7.1	5.5	4.6
% CRAR	16.3%	18.7%	20.4%
% Gross NPAs	7.2%	10.4%	9.0%
% Net NPAs	5.8%	8.4%	7.5%

Source: Company and ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

**Rating history for last three years:
Table:**

S.No	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Amount Outstanding (Rs. Crores)	Month-year & Rating March 2018	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
1	MFL Securitisation Trust LXIV	PTC Series A1	56.59	56.59	Provisional [ICRA]AA(SO)	-	-	-
		PTC Series A2	3.14	3.14	Provisional [ICRA]AA(SO)	-	-	-
		Second Loss Facility	3.14	3.14	Provisional [ICRA]BBB-(SO)	-	-	-
		Liquidity Facility	1.05	1.05	Provisional [ICRA]AAA (SO)	-	-	-

Complexity level of the rated instrument: Highly Complex

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 I
Details of Instruments

Sl.	Trust Name	Instrument	Date of Issuance	Coupon Rate	Scheduled Maturity Date*	Initial Amount (Rs. crore ²)	Current Rating
1	MFL Securitisation Trust LXIV	PTC Series A1	March 2018	6.60%	September 2022	56.59	Provisional [ICRA]AA(SO)
		PTC Series A2		N.A.	September 2022	3.14	Provisional [ICRA]AA(SO)
		Second Loss Facility		N.A.		3.14	Provisional [ICRA]BBB-(SO)
		Liquidity Facility		N.A.		1.05	Provisional [ICRA]AAA(SO)

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² 100 lakh = 1 crore = 10 million

Contact Details

Analyst Contacts

Vibhor Mittal

(+91) 22 6114 3440

vibhorm@icraindia.com

Abhijeet Ajinkya

(+91) 22 6114 3434

abhijeet.ajinkya@icraindia.com

Gaurav Mashalkar

(+91) 22 6114 3431

gaurav.mashalkar@icraindia.com

Ayush Agarwal

(+91) 22 6114 3417

ayush.agarwal@icraindia.com

Himanshi Doshi

(+91) 22 6114 3410

himanshi.doshi@icraindia.com

Relationship Contact:**L Shivakumar**

+91 22 6114 3406

shivakumar@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.

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20- 6606 9999; Fax: +91-20-25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500