

January 03, 2020

Manappuram Finance Limited: Provisional [ICRA]AAA(SO) rating assigned to PTCs issued under two-wheeler securitisation transaction by Vivriti Desmond 12 2019

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Vivriti Desmond 12 2019	Series A1 PTC	45.90	Provisional [ICRA]AAA(SO) assigned

**Instrument details are provided in Annexure-1*

Rationale

ICRA has assigned a Provisional [ICRA]AAA(SO) rating [pronounced provisional ICRA triple A (structured obligation)] to Series A1 PTC under a securitisation transaction originated by Manappuram Finance Limited (MFL/originator). The pass-through certificates (PTCs) are backed by a pool of Rs. 60.01-crore two-wheeler receivables (underlying pool principal of Rs. 51.00 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts as well as the credit enhancement available in the form of (i) a cash collateral (CC) of 7.00% of the pool principal to be provided by the originator, (ii) subordination of 10.00% of the pool principal for Series A1 PTC and (iii) the entire excess interest spread (EIS) in the structure. The rating is also based on the integrity of the legal structure and is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, over-collateralisation and cash collateral
- Absence of overdue contracts as on pool cut-off date
- Loan-to-value (LTV) of majority of the contracts in the pool is lower than 80%, a segment which is performing better in the portfolio
- Pool has moderately high seasoning profile

Credit challenges

- Moderate geographical concentration of the contracts in the pool at the state level

Description of key rating drivers highlighted above

The first line of support for Series A1 PTC in the transaction is in the form of a subordination of 10.00% of the pool principal. The transaction is structured such that any collection in respect of the principal amount billed and prepayments would be utilised for the payment of the expected principal of Series A1 PTC. Additionally, the EIS available in the structure will provide credit enhancement support.

Further credit support is available through a CC equivalent to 7.00% of the initial pool principal amount (Rs. 3.57 crore). The CC will be in the form of a fixed deposit from MFL, maintained with a bank. In case of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

There were no overdues in the pool as on the cut-off date of November 30, 2019. The pool consists of loans with a moderately high seasoning profile, with a weighted average seasoning of 9.0 months. The geographical concentration of the loan contracts in the current pool is moderate with the top three states constituting 71.5% of the pool principal.

Past rated pool performance: Not applicable; this is the first pool backed by two-wheeler loan receivables originated by MFL, being rated by ICRA.

Key rating assumptions

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

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be 4.5-5.5%, with some variability. The prepayment rate for the underlying pool is estimated to be in the range of 6.0-9.0% per annum.

Liquidity position

Series A1 PTC: Superior

As per the transaction structure, only the interest amount is promised to the Series A1 PTC holders monthly 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 highly comfortable to meet the promised payouts to Series A1 PTC investors.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – The sustained weak collection performance of the underlying pool (monthly collection efficiency of <95%), leading to higher-than-expected delinquency levels and credit enhancement (CE) utilisation levels

Analytical approach

The rating action is based on the analysis of the performance of MFL's portfolio till October 2019, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

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

About the company

Thrissur (Kerala)-based Manappuram Finance Limited, the flagship company of the Manappuram Group, is a non-deposit taking, systemically important non-banking finance company (ND-NBFC-SI), which primarily lends against gold ornaments. As on March 31, 2019, it had 4,351 branches across India with a total employee base of 25,610. The company went public in August 1995. Over the years, the Group has diversified into other businesses such as home loans, microfinance, vehicle and equipment finance, SME finance and insurance broking.

The overall assets under management (AUM) stood at Rs. 19,438 crore as on March 31, 2019, including gold loans (67%), microfinance (20%), vehicle and equipment finance (6%), housing (3%), and other businesses. The gold loan business is diversified across 3,372 branches in 28 states and union territories while the microfinance business (Asirvad) is spread across 942 branches in 23 states. The vehicle and equipment finance business are spread across 168 branches in 21 states and the housing finance business is spread across 35 branches in 6 states.

For FY2019, the consolidated profit after tax (PAT) was Rs. 920 crore on total income of Rs. 4,179 crore compared to PAT of Rs. 676 crore on total income of Rs. 3,479 crore for FY2018.

Key financial indicators (audited)

	Standalone		Consolidated	
	FY2018 (Ind AS)	FY2019 (Ind AS)	FY2018 (Ind AS)	FY2019 (Ind AS)
Total Income	2,953	3,427	3,479	4,179
Profit after Tax**	689	790	676	920
Net Worth	7,812	9,793	3,813	4,525
Total Managed Portfolio	12,841	15,005	15,765	19,438
Total Managed Assets	14,593	17,646	17,030	20,454
Return on Average Managed Assets (%)	5.0%	4.9%	4.0%	4.9%
Return on Average Net Worth (%)	27.0%	24.0%	17.8%	22.1%
Gross NPA %	0.7%	0.6%	-	-
Net NPA %	0.3%	0.3%	-	-
Net NPA / Net Worth	1.0%	1.0%	-	-
Gearing (reported; times)	2.8	3.0	2.9	2.9
% CRAR	27.0%	23.8%	-	-

Amounts in Rs. crore; Source: ICRA research and company

* Information available as per the financial statements prepared under Ind AS

** After minority interest

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Rated Amount	Amount Outstanding	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
						03-Jan-20	-	-
1	Vivriti Desmond 12 2019	Series A1 PTC	45.90	45.90	Provisional [ICRA]AAA(SO)	-	-	-

Amounts in Rs. crore

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-1: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate [#]	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Vivriti Desmond 12 2019	Series A1 PTC	Dec 2019	9.50%	March 2024	45.90	Provisional [ICRA]AAA(SO)

[#] Calculated on XIRR basis

* Scheduled maturity and average life at transaction initiation; may change on account of prepayments in the underlying pool

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