February 27, 2020

Magma Fincorp Limited: Provisional [ICRA]AA(SO) rating confirmed for Assignee Payouts to be issued under MFL PSB DA JAN20

Summary of rating action

Issue Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
MFL PSB DA JAN'2020	Assignee Payouts	142.40	Provisional [ICRA]AA(SO); confirmed as final

**Instrument details are provided in Annexure-1*

Rationale

ICRA has confirmed the provisional ratings to Assignee Payouts[1] under a securitisation transaction, MFL PSB DA JAN'2020 as final, as tabulated above. The Assignee Payouts are backed by receivables from a Rs. 142.40 crore pool of passenger vehicle (PV), commercial vehicles (CV), construction equipment (CE) and Tractor loan contracts.

In February 2020, ICRA had assigned a rating of Provisional [ICRA]AA(SO) [pronounced provisional ICRA double A structured obligation] to Assignee Payouts under a securitisation transaction, MFL PSB DA JAN'2020, originated by Magma Fincorp Limited (MFL). Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of Excess Interest Spread (EIS) and Cash Collateral;
- Pool is devoid of any delinquent contracts as on the pool cut-off date;

Credit challenges

- The pool has moderate share of high LTV contracts
- The pool has moderate share of high IRR contracts

It is envisaged that for this transaction, the Assignee will avail the Partial Credit Guarantee (PCG)' under the Partial Credit Guarantee Scheme offered by the Government of India (GoI) to Public Sector Banks (PSBs) for purchasing high-rated pooled assets from NBFCs/Housing Finance Companies (HFCs). ICRA has not factored in the PCG while arriving at the assigned rating.

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the assignee. The first line of support for meeting the scheduled assignee payouts is the EIS of 10.8% in the structure, which is subordinated. A cash collateral of 11.00% of the initial pool principal provided by MFL acts as further credit enhancement in the transaction.

[1] *The assignee for the transaction is Punjab and Sind Bank and assignor/originator is Magma Fincorp Limited (MFL)*

The scheduled cash flow promised to the assignee on each payout date includes 100% of the monthly billed principal on the pool and interest at the contracted yield. The pool amortisation schedule and thus the promised payouts to the Assignee are subject to modification on account of prepayments.

The selected pool consists of receivables against loans given for financing New LCV, Used LCV, New PV, Used PV, New CE, Used CE, New Tractor and Used Tractor loans. The pool is characterised by moderately high seasoning (weighted average seasoning of around 12.78 months), moderately high LTV (weighted average LTV of around 79.35%), moderately high IRR (weighted average IRR of around 17.67%), and no overdue contracts. The pool has high geographical concentration with the top 3 states contributing about 36.08% of overall pool principal.

Past rated pool performance: ICRA has rating outstanding on eight pools originated by MFL. The pools have shown good performance well with cumulative collection efficiency between 94% - 99% and negligible loss-cum-180+ dpd level sub 3% till November 2019 collection month.

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 Co-efficient 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.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be 4.00% - 5.00%, 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.

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 a cash collateral amounting to 11% of the 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 five months.

Rating sensitivities

Positive triggers – 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 investor payouts from the credit enhancements.

Negative triggers – Sustained weak collection performance of the underlying pool (Monthly collection efficiency <90%) leading to higher than expected delinquency levels and CE utilization levels

Analytical approach

The rating action is based on the assignee representative 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

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 NBFC. The portfolio growth remained stagnant in H1FY2020 with the managed AUM at Rs. 16,463 crore as on September 30, 2019 compared to Rs. 16,526 crore as on September 30, 2018. The portfolio mix remained largely stable, with vehicle financing, SME and mortgage constituting 66%, 12% and 22%, respectively, of the portfolio. There has been an increased focus on the financing of CVs, used assets, SME and mortgage, the total share of which increased to 65% of the portfolio as on September 30, 2019 from 53% as on March 31, 2018. 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 FY2019, MFL recorded a consolidated profit after tax of Rs. 304 crore on a total consolidated asset base of Rs. 16,789 crore compared with a consolidated profit after tax of Rs. 237 crore on a total consolidated asset base of Rs. 14,894 crore in FY2018. On a standalone basis, MFL reported a profit after tax of Rs. 275 crore on an asset base of Rs. 14,991 crore in FY2019 compared to a profit after tax of Rs. 202 crore on an asset base of Rs. 13,568 crore in FY2018.

In H1 FY2020, MFL recorded a consolidated profit after tax of Rs. 40 crore on a total consolidated asset base of Rs. 15,857 crore compared with a consolidated profit after tax of Rs. 145 crore on a total consolidated asset base of Rs. 15,457 crore in H1 FY2019. On a standalone basis, MFL reported a profit after tax of Rs. 20 crore on an asset base of Rs. 13,865 crore in H1 FY2020 compared to a profit after tax of Rs. 122 crore on an asset base of Rs. 13,955 crore in H1 FY2019. On a consolidated basis, the company's borrowing mix consisted of working capital lines (31%), securitisation (34%), non-convertible debentures (NCDs; 5%), term loans (22%) and perpetual & subordinated debt (8%) as on September 30, 2019. About two-third of the funding was generated through banks.

Key financial indicators (consolidated)

	FY2018 Ind-AS	FY2019 Ind-AS	H1 FY2020 Ind-AS
Profit after tax	237	304	40
Net worth	1,972	2,744	2,752
AUM	15,801	17,029	16,463
On-book portfolio	14,644	15,645	14,581
Return on average assets	1.6%	1.8%	0.5%
Return on average equity	11.4%	12.9%	2.9%
Gearing (times)	6.1	4.8	4.5
% CRAR (MFL standalone)	17.3%	24.9%	27.6%
% Gross stage 3 (on-book)	8.6%	4.8%	6.4%
% Net stage 3 (on-book)	4.5%	3.1%	4.2%
% Net stage 3/ Net worth	31.7%	17.2%	21.8%

Source: Magma, ICRA research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating 27-Feb-20	Rating 05-Feb-20	FY2019 -	FY2018 -	FY2017 -
1	MFL PSB DA JAN'2020	Assignee Payouts	142.40	142.40	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	-

Amount in Rs. crore

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	Coupon Rate^	Scheduled Maturity Date*	Amount Rated (Rs. crore[2])	Current Rating
MFL PSB DA JAN'2020	Assignee Payouts	January 2020	8.70%	May 2024	142.40	[ICRA]AA(SO)

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

^ linked to Assignee 1 yr MCLR of assignee

[2] *100 lakh = 1 crore = 10 million*

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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.

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