August 03, 2020

Magma Fincorp Limited: Provisional [ICRA]AA(SO) rating assigned to Assignee Payouts to be issued under MFL PSB DA JUL'20

Summary of rating action

Issue Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
MFL PSB DA JUL'2020	Assignee Payouts	107.60	Provisional [ICRA]AA(SO); Assigned

**Instrument details are provided in Annexure-1*

Rationale

ICRA has assigned provisional rating to Assignee Payouts under a securitisation transaction, MFL PSB DA JUL'2020, originated by Magma Fincorp Limited (MFL). The Assignee Payouts are backed by receivables from a Rs. 107.60 crore pool of passenger vehicle (PV)/car, commercial vehicles (CV), construction equipment (CE) and Tractor loan contracts.

The provisional rating is based on the strength of cash flows from the selected pool of contracts, MFL's track record in the vehicle and tractor loan business, the available credit enhancement in the form of cash collateral (CC) and subordination of Excess Interest Spread (EIS), 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.

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;
- In the structure the yield on underlying pool contracts is fixed while assignee yield is linked to assignee's MCLR—which leads to an interest rate risk in the structure.
- Uncertainty arising from the nationwide lockdown due to Covid-19 pandemic that may lead to near-term stress on pool performance;

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 8.1% in the structure, which is subordinated. A CC of 10.00% of the initial pool principal provided by MFL acts as further credit enhancement in the transaction.

The scheduled cash flow promised to the assignee on each payout date includes interest at the contracted yield with entire pool principal promised on the last payout date.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 MHCV, New LCV, Used MHCV, Used LCV, New PV, Used PV, New CE, Used CE, New Tractor and Used Tractor loans. The pool is characterised by high seasoning (weighted average seasoning of around 20.88 months), moderate LTV (weighted average LTV of around 83.18%), moderately high IRR (weighted average IRR of around 16.22%), and no overdue contracts. The pool has high geographical concentration with the top 3 states contributing about 48.32% of overall pool principal.

Past rated pool performance: ICRA has rating outstanding on six pools originated by MFL. The pools have shown good performance well with cumulative collection efficiency between 95% - 99% and negligible loss-cum-180+ dpd level sub 2% till May 2020 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

As per the transaction structure, only the interest amount is promised to the assignee payout 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 cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to assignee.

Rating sensitivities

Positive triggers – The rating could be upgraded provided a quick ramp up of collection efficiency to greater than 95%, leading to lower than expected delinquency levels, and an increase in the cover available for future assignee payouts from the credit enhancement(CE);

Negative triggers – The rating could be downgraded if the collection of the pool, which is expected to be low in initial months, does not ramp up within six months from the end of lock-down and remains less than 90% on a sustained basis, leading to higher than expected delinquency levels and CE utilization levels

Analytical approach

The rating action is based on the analysis of the performance of MFL's portfolio till March 2020 and the 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.

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 9M FY2020, MFL recorded a consolidated profit after tax of Rs. 63 crore on a total consolidated asset base of Rs. 16,432 crore compared with a consolidated profit after tax of Rs. 219 crore on a total consolidated asset base of Rs. 15,546 crore in 9M FY2019. On a standalone basis, MFL reported a profit after tax of Rs. 25 crore on an asset base of Rs. 14,021 crore in 9M FY2020 compared to a profit after tax of Rs. 189 crore on an asset base of Rs. 13,908 crore in 9M FY2019. On a consolidated basis, the company's borrowing mix consisted of working capital lines (25%), securitisation (34%), non-convertible debentures (NCDs; 6%), term loans (28%) and perpetual & subordinated debt (7%) as on December 31, 2019. About two-third of the funding was generated through banks.

Key financial indicators (consolidated)

	FY2018 Ind-AS	FY2019 Ind-AS	9M FY2020 Ind-AS
Profit after tax	237	304	63
Net worth	1,972	2,744	2,775
AUM	15,801	17,029	16,574
On-book portfolio	14,644	15,645	14,776
Return on average assets	1.6%	1.8%	0.4%
Return on average equity	11.4%	12.9%	2.3%
Gearing (times)	6.1	4.8	4.7
% CRAR (MFL standalone)	17.3%	24.9%	26.9%
% Gross stage 3 (on-book)	8.6%	4.8%	6.7%
% Net stage 3 (on-book)	4.5%	3.1%	4.5%
% Net stage 3/ Net worth	31.7%	17.2%	23.3%

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 (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating 03-Aug-20	FY2020 -	FY2019 -	FY2018 -
1	MFL PSB DA JUL'2020	Assignee Payouts	107.60	107.60	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[1])	Current Rating
MFL PSB DA JUL'2020	Assignee Payouts	July 2020	8.80%	September 2024	107.60	Provisional [ICRA]AA(SO)

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

[1] *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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