Northern Arc Capital Limited

February 08, 2019

Summary of rated instruments

Trust Name	Instrument*	Current Rated Amount(Rs. crore)	Rating Action
Northern Arc 2018 Mosec Yantra	PTC Series A1	182.90	Provisional [ICRA]A-(SO) assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned Provisional [ICRA]A-(SO) rating to PTC Series A1 under a securitisation transaction arranged by Northern Arc Capital Limited. The PTCs are backed by a pool of Rs. 232.61 crore micro loan receivables (underlying pool principal of Rs. 203.22 crore) originated by 9 entities namely Annapurna Finance Private Limited (Annapurna), Centrum Microcredit Private Limited (Centrum), Inditrade Microfinance Limited (Inditrade), Light Microfinance Private Limited (Light), Namra Finance Limited (Namra), Saija Finance Private Limited (Saija), Vaya Finserv Private Limited (Vaya), Village Financial Services Limited (Village) and Spandana Sphoorty Financial Limited (Spandana)

Rationale

The provisional rating is based on the strength of cash flows from the selected pool of contracts, the originators' (Annapurna, Centrum, Inditrade, Light, Namra, Saija, Vaya, Village and Spandana) track record in the business, the available credit enhancement in the form of credit collateral provided by each of the originators and the common second loss facility available in the transaction, 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.

Annapurna, Centrum, Inditrade, Light, Namra, Saija, Vaya, Village and Spandana would assign to an SPV (Trust) namely Northern Arc 2018 Mosec Yantra, the future receivables arising from selected pool totalling to 1,15,703 loan contracts. The transfer would be at par. The Trust will issue one series of PTCs backed by the receivables. The upfront purchase consideration to be paid by PTC Series A1 investors to the Trustee will be 90.00% of the pool principal i.e. Rs. 182.90 crore. There is also subordination available in the transaction in the form of overcollateralization of 10.00% of the pool principal amount i.e. Rs. 20.32 crore.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of Subordination, Excess Interest Spread (EIS), First Loss Facility (FLF) for each of the sub-pools and a common Second Loss Credit Enhancement (SLCE);
- None of the contracts in the pool is overdue as on pool cut-off date;
- Moderate seasoning and pre-securitisation amortisation level of the pool contracts

Credit challenges

- High district level concentration in the sub-pools for some of the entities

Description of key rating drivers highlighted above:

The first line of support for Series A1 PTCs in the transaction is available in the form of subordination of 10.0% of the pool principal (over collateralization) provided by each of the originators. An important feature of the transaction structure is that any collection in excess of the promised interest payouts to PTC Series A1 would be first utilised for payment of expected principal of PTC Series A1. The balance amount would then leak out to the Originators on a monthly basis.

The FLF and SLCE act as further credit enhancement in the transaction. FLF, which will be provided separately by each of the originators aggregates to 5.04% of the initial pool principal amount (Rs. 10.24 crore). The FLF provided by each Originator can be used to meet the losses/ collection shortfalls of the sub pool of that Originator only, and not for meeting the losses/ collection shortfalls in the sub pools of the other Originators. The SLCE amounting to 6.17% of the initial pool principal amount (Rs. 12.54 crore) would be utilised only after the FLF provided by any specific Originator is exhausted.

The pool consists of loans with moderate seasoning and pre-securitisation amortisation of 30.7 weeks and 39.6% respectively. There are no overdue contracts in the pool as on cut-off date. The current pool is diversified across 18 states, with the concentration of top 1 state viz. Bihar at about 13.9%. However, at a sub-pool level most of the Originators, the geographical concentration is high.

Key Rating Assumptions

ICRA's cash flow modelling 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 prevalent macroeconomic 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 weighted average expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 4.50% - 5.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 2% - 5% per annum.

Liquidity Position

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. This structural feature imparts significant liquidity in the transaction, as even a small amount of collections in the underlying pool contracts would be sufficient to meet the promised PTC payouts.

Additionally, there is cash collateral available in the form of FLF in transaction amounting to 5.04% of the pool principal amount. The FLF provided by each of these originators is adequate to meet promised interest payouts due to the senior PTC investors for a period of 5-9 months even in an unlikely scenario of no collections in that originator's sub-pool. There is also a common SLCE available in the transaction amounting to 6.17% of the pool principal amount.

Performance of past rated pools: ICRA has rated 83 Multi Originator transactions backed by pools of MFI entities in the past, of which PTC Series A1 has matured in 80 transactions. In all such past rated transactions, there has been no shortfall in making the scheduled payments to the PTC Series A1 investors. Some of the originators in the present transaction were a part of some of the earlier ICRA-rated Multi Originator transactions.

In all multi Originator transactions where the senior PTCs are live and the transactions have completed 2 or more payouts as on Dec-18, the performance of the sub pools therein has been good with more than 95% collection efficiency and low delinquencies after the Dec-18 payouts. Cash collateral has not been utilized in case of any of these transactions.

Analytical approach

The rating action is based on the analysis of the past performance of originator's portfolio till September 2018, performance of 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:

Annapurna Finance Private Limited ("Annapurna")

Annapurna Finance Private Limited (Annapurna) was started as Mission Annapurna by People's Forum (the parent organisation) to carry out the microfinance activities of People's Forum. People's Forum has been in operations since 1994 and is engaged in wide array of developmental activities for the poor including microfinance, healthcare, women empowerment, agricultural and allied services training etc. Mission Annapurna was subsequently converted to an NBFC (Annapurna) in Financial Year (FY) 2008-09 after acquisition of a Gwalior based Microfinance Company. Annapurna operates mainly in rural areas and semi-urban areas with a small presence in urban areas. The company has a rating of [ICRA]BBB+(Stable) outstanding from ICRA for its NCD programme as on September 2018.

As on Sep-18, Annapurna operates in 205 districts in 14 states of Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Jharkhand, Madhya Pradesh, Maharashtra, Meghalaya, Odisha, Punjab, Rajasthan, Tripura and West Bengal. As of Sep-18, Annapurna has a portfolio of Rs. 2,196.78 Crore.

Key Financial Indicators

	FY2017	FY2018	Q1 FY2019[1]
Net interest income	73.8	128.3	46.3
Profit before tax	29.0	13.8	22.0
Profit after tax	18.9	9.5	14.5
Portfolio size	1,238.6	1,919.5	2,035.2
Total assets	1,531.1	2,023.6	2,175.0
% CRAR	22.4%	17.9%	26.3%
Gearing	7.8	7.0	4.1
Gearing (including off-book)	9.1	8.4	4.8
% Net profit/average total assets	1.3%	0.5%	2.4%
% Return on net worth	13.1%	4.6%	17.7%
% Gross NPAs	0.2%	3.7%	2.1%
% Net NPAs	0.0%	0.3%	0.1%
Net NPA/net worth	0.2%	2.0%	0.5%

Amount in Rs. crore

[1] *Provisional*

Centrum Microcredit Private Limited ("Centrum")

The company was started in December 2017 with the acquisition of microfinance business of FirstRand Bank (FRB), which started operations in India in January 2015. During the acquisition, an AUM of Rs. 105 crore across 25 branches in Maharashtra and Gujarat, was transferred from FRB to CMPL, along with 296 employees. CMPL is a subsidiary of Centrum Capital Limited (CCL), which is also the controlling arm of the other entities of the Centrum Group (Centrum Financial Services Limited and Centrum Housing Finance Limited). CMPL provides loans to the under-served borrowers in the semi-urban and urban areas, under the JLG model. Loans are given to the female borrowers for income-generating activities. The average ticket size of the JLG loans is around Rs. 28,000 with an IRR of nearly 25% and nearly 79% of the portfolio with a tenor of greater than 12 months and nearly 50% portfolio with a tenor more than 18 months. The portfolio has monthly repayment terms for all borrowers.

As on November 30, 2018, the company had AUM of nearly Rs. 179 crore spreads across 50 branches in three states-Maharashtra, Gujarat and Odisha. It has 89,000 active customers and a PAR of Rs. 1.17 crore (0.65%) as on November 30, 2018.

Inditrade Microfinance Limited ("Inditrade")

Inditrade Microfinance Limited (IML) was incorporated on January 29, 2016 under the name Tree Microfinance Limited. The company's name was subsequently changed to Inditrade Microfinance Limited on May 18, 2016 consequent to becoming a subsidiary of Inditrade Capital Limited. The company is registered as non-deposit accepting NBFC-MFI with RBI and is engaged in micro-lending activities.

As on September 30, 2018, the company had a portfolio of Rs.96.45 crore spread across 5 states (Maharashtra, Tamil Nadu, Karnataka, Kerala and Odisha), 11 districts and 34 branches. The company reported 0+ and 30+ delinquency of 0.88% and 0.29%, respectively, as on Sep-18.

Light Microfinance Private Limited ("Light")

Light Microfinance was started as a private limited company in January 2009 and in August 2009 received its license from RBI to operate as a Non-Banking Finance Company (NBFC), under the RBI Act 1934 Section 45IA (for NBFC) & NBFC-MFI certification from RBI. The company is headquartered in Ahmedabad, its initial focus was on Gujarat with the goal of rapidly expanding to other states in India. The company works specifically with women from poor rural and semi-urban households, to enable and empower them. Its core activity is making small loans to target beneficiary for income generating purposes using the Joint Liability Group (JLG) methodology. A typical customer of Light Microfinance is a rural woman usually engaged in daily wage activities or microenterprise, owning a small house and with little or no land.

As on September 30, 2018, the company had a portfolio of Rs.210.47 crore spread across 3 states (Gujarat, Rajasthan and Madhya Pradesh) and 47 districts. The company reported 0+ and 30+ delinquency of 1.75% and 1.45%, respectively, as on Sep-18.

Namra Finance Limited ("Namra")

Namra Finance Ltd. (NFL), a wholly owned subsidiary of Arman Financial Services Ltd (AFSL), manages the microfinance business of the group. NFL is registered with the Reserve Bank of India as a Non-Banking Finance Company - Microfinance Institution (NBFC-MFI).

As on September 30, 2018, the company had operations in 5 states of Gujarat, Maharashtra, Madhya Pradesh, Uttar Pradesh and Uttarakhand with a total of 134 branches. The company had a portfolio of Rs. 358 crore as on September 30, 2018 with the company disbursing Rs. 270 crore during H1FY2019. The company reported 0+ and 30+ delinquency of 1.37% and 0.99%, respectively, as on Sep-18.

Saija Finance Private Limited ("Saija")

Saija Finance Private Limited (Saija) is an NBFC-MFI that started its microfinance operations in November 2007 as a programme under Saija Vikas, a society formed in July 2007 by the promoters – Mr. S.R Sinha and Mrs. Rashmi Sinha. The NBFC was formed in April 2008 and was granted the NBFC-MFI licence in December 2013 by RBI. Saija lends to borrowers under the joint liability group (JLG) model and primarily offers two types of loans — Saija Mahila Rin and Saija Karobar Rin. The company also provides other loan products such as Saija Urja Rin (solar lighting products), Saija Vridhi Rin, Saija Fan Rin, and Saija Stove Rin.

ICRA has a rating outstanding of BBB- (Stable) to the NCDs and long-term bank lines of Saija as on Dec-18. The company reported 0+ and 30+ delinquency of 4.70% and 3.31%, respectively, as on Sep-18.

Key financial indicators (Audited)

	FY2017	FY2018	H1 FY2019*
Net interest income	13.37	21.77	24.28
Profit before tax	2.27	(6.81)	12.29
Profit after tax	2.14	(4.70)	8.08
Gross advances (on-book)	213.20	338.43	408.71
Gross advances (including off-book)	251.42	375.08	442.57
Total managed assets	311.79	454.78	491.90
% Tier-1	10.90%	13.50%	13.94%
% CRAR	16.10%	21.26%	22.03%
Gearing	7.75	6.10	5.90
% Net profit/Average managed assets	0.68%	(1.23)%	3.38%
% Return on net worth	7.41%	(11.12)%	27.19%
% Gross NPA	4.00%^	3.62%	2.94%
% Net NPA	0.03%	0.14%	0.17%
Net NPA/Net worth	0.20%	0.38%	1.11%

**Provisional numbers for H1 FY2019*

^Excluding RBI dispensation; 0.48% as per FY2017 audited financials

Vaya Finserv Private Limited ("Vaya")

Vaya Finserv Private Limited was incorporated in March 2014. It is promoted by Vaya Trusts, earlier known as the SKS Mutual Benefit Trusts, and Mr. Vikram Akula who had promoted Bharat Financial Inclusion Limited (earlier known as SKS Microfinance), one of the earliest microfinance companies in India. It is an authorised BC for two banks (RBL Bank and Yes Bank) and Reliance Commercial Finance Limited (RCFL) in India. The company provides micro loans under the joint liability group (JLG) model and credit linked insurance. Its loans qualify for priority sector lending for banks. As on September 30, 2018, the company operated in 78 districts in seven states including Odisha (31%), Bihar (29%), Jharkhand (18%), Maharashtra (11%), Karnataka (10%) with a small proportion in Tamil Nadu and Telangana.

In FY2018, the company reported a net profit of Rs. 3.67 crore on a managed portfolio of Rs. 689.11 crore compared to a net profit of Rs. 5.60 crore on a managed portfolio of Rs. 376.69 crore in FY2017. In H1 FY2019, the company reported a net profit of Rs. 10.02 crore on a managed portfolio of Rs. 968.05 crore as on September 30, 2018.

ICRA has a rating outstanding of BBB (Stable) to the NCDs and long-term bank lines of Vaya as on Jan-19. The company reported 0+ and 30+ delinquency of 3.92% and 2.62%, respectively, as on Sep-18.

Key financial indicators (Audited)

	FY2017	FY2018	H1 FY2019*
Net interest income	0.00	1.46	15.35
Profit before tax	3.66	4.62	14.35
Profit after tax	5.60	3.67	10.02
On-book portfolio	0.00	92.01	317.68
Managed portfolio (including off-balance sheet receivables)	376.69	689.11	968.05
Total managed assets	431.65	819.04	1,105.65
% Tier-1	NA	34.23%	37.93%
% CRAR	NA	34.23%	37.93%
Gearing (times)	1.21	2.76	1.62
% Net profit/Average managed assets	1.57%	0.59%	2.08%
% Return on net worth	41.46%	10.31%	18.67%
% Gross NPA^	0.00%	0.00%	0.04%
% Net NPA^	0.00%	0.00%	0.00%
Net NPA/Net worth	0.00%	0.00%	0.00%

**Provisional numbers for H1 FY2019; Amounts in Rs. crore; All ratios as per ICRA calculations; ^On-book portfolio*

PAT: Profit after tax; NIM: Net interest margin; AMA: Average managed assets; RoMA: Return on managed assets; RoE: Return on equity

Village Financial Services Limited ("Village")

Village Financial Services Limited (VFSL) is a microfinance company registered as a Non-banking Finance Company (NBFC) with the Reserve Bank of India. VFSL started micro finance operations in January 2006. Promoters of VFSL (Mr. Ajit Kumar Maity, Chairman, VFSL) are engaged in micro finance activity since 1995 through Village Welfare Society and Village Micro Credit Services (VMCS). As of now, Village Welfare Society does not undertake any micro finance activity and engaged only in grant based activities while there is no activity as of now in Village Micro Credit Services; entire portfolio of VMCS was transferred to VFSL by Sep 2009. During FY2018, the company converted itself into a 'Public' Limited Company and subsequently its name was changed to 'Village Financial Services Limited' from 'Village Financial Services Private Limited'.

As on September 30, 2018, VFSL operated from 223 branches catering to 4,25,278 borrowers across 10 states. The company reported 0+ and 30+ delinquency of 0.59% and 0.50%, respectively, as on Sep-18.

Spandana Sphoorty Financial Limited ("Spandana")

Spandana Sphoorty Financial Limited (Spandana) was incorporated in 2003 as a non-banking financial company (NBFC) and took over the microfinance operations of Spandana, a non-governmental organisation started by Ms. Padmaja Reddy in 1998. The company was classified as a non-banking financial company – microfinance institution (NBFC - MFI) in 2015. Following the microfinance crisis in Andhra Pradesh (AP), Spandana entered into a Master Restructuring Agreement (MRA) as a part of the corporate debt restructuring (CDR) with its lenders in September 2011. It exited the CDR in March 2017 after a fresh equity investment led by Kedaara Capital Investment Managers Limited2 (Kedaara Capital) and fresh funding from three lenders. The key shareholders in the company as on August 17, 2018 on a diluted basis are Kedaara Capital and affiliates (60.4%), Valiant Mauritius Partners FDI (7.8%), JM Financial Ltd group (6.5%) and the company's promoter Ms. Reddy (19.6%), who continues to be the Managing Director.

[2] *Through a special purpose vehicle called Kanchenjunga Limited*

As on September 30, 2018, the company had operations in 17 states and union territories spanning across 251 districts with a total loan portfolio outstanding of Rs. 3,949 crore. The active member base and number of field staff stood at 21.31 lakh and 4,988 respectively as on September 30, 2018.

ICRA has a rating outstanding of BBB+ (Stable) to the NCDs and long-term bank lines of Spandana as on Dec-18. The company reported 0+ and 30+ delinquency of 0.69% and 0.53%, respectively, as on Dec-18.

Key financial indicators

	FY 2016 (audited)	FY 2017 (audited)	FY2018 (audited)	H1 FY2019 (IndAS)
Total Income	347.5	376.0	525.7	486.7
Profit after Tax	243.2	52.9	171.9	145.3
Net worth	-606.9	537.2	984.2	1,675.2
Total Managed Portfolio^	2,018.8	2,094.6	4,013.9	4,535.2*
Total Managed Assets^	2,099.9	2,413.2	4,262.9	5,520.5*
Return on Average Managed Assets^ (%)	10.9%	2.3%	5.1%	5.9%*
Return on Average Net worth (%)	-33.5%	-152.0%	22.6%	21.9%
Gross NPA^ (%)	39.7%	42.1%	25.9%	13.4%*
Net NPA^ (%)	0.1%	2.9%	0.3%	0.1%*
Net NPA^ / Net worth	-0.2%	6.9%	0.7%	0.2%*
Managed Gearing (times)	-2.9	1.8	2.3	1.9
CRAR^ (%)	-18.6%	49.0%	37.2%	38.8%

Note: *Amounts in Rs. crore*
^Includes non-yielding old AP portfolio of about Rs. 800 crore, which has 100% provision cover
**Includes non-yielding old AP portfolio of about Rs.615 crore which has 100% provision cover*
Source: *Spandana, ICRA research*

Status of non-cooperation with previous CRA: CRISIL, November 2018

CRISIL Ratings in its rationale published on November 30, 2018, had withdrawn the ratings assigned to the bank facilities of Spandana on account of non-cooperation by Spandana at the time of review of the ratings.

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					February 2019	-	-	-
1	Northern Arc 2018 Mosec Yantra	PTC Series A1	182.90	182.90	Provisional [ICRA]A-(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-1: Instrument Details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Northern Arc 2018 Mosec Yantra	PTC Series A1	February 2019	9.60%	October 2020	182.90	Provisional [ICRA]A-(SO)

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

ANALYST CONTACTS

Vibhor Mittal
+91 22 6114 3440
vibhorm@icraindia.com

Abhijeet Ajinkya
+91 22 6114 3434
abhijeet.ajinkya@icraindia.com

Rahul Panigrahi
+91 22 6114 3436
rahul.panigrahi@icraindia.com

Arjun Bhatia
+91 22 6114 3449
arjun.bhatia@icraindia.com

Ayush Agarwal
+91 22 6114 3417
Ayush.agarwal@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999