

July 11, 2019

Northern Arc Capital Limited: Ratings confirmed as final for PTCs issued under a micro loan receivables securitisation transaction originated by multiple originators, arranged by Northern Arc Capital Limited

Summary of rated instruments

Trust name	Instrument*	Initial rated amount (Rs. crore)	Current Rated amount (Rs. crore)	Rating action
Northern Arc 2019	PTC Series A1	92.54	92.54	Provisional [ICRA]A-(SO) confirmed as final
Mosec Kree	PTC Series A2	6.38	6.38	Provisional [ICRA]BB-(SO) confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA has confirmed the provisional ratings assigned to the pass-through certificates (PTCs) issued by Northern Arc 2019 Mosec Kree trust as final.

In April 2019, ICRA had assigned Provisional [ICRA]A-(SO) rating (pronounced provisional ICRA A minus structured obligation) to PTC Series A1 and Provisional [ICRA]BB-(SO) rating (pronounced provisional ICRA double B minus structured obligation) to PTC Series A2, issued by Northern Arc 2019 Mosec Kree trust. 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 Subordination, Excess Interest Spread (EIS), First Loss Facility (FLF) for each of the sub-pools;
- 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 PTC Series A1 in the transaction is in the form of subordination of 13.00% of the pool principal (includes principal payable to PTC Series A2 and over collateralization). After PTC Series A1 has been fully paid, subordination of 7.00% of the pool principal will be available for PTC Series A2 (in the form of over collateralization). An important feature of the structure in this transaction is that any collection in excess of the promised interest payouts to PTC A1 would be first utilised for payment of expected principal of PTC A1 and then for expected interest payouts to PTC A2. After PTC A1 is completely amortised the same would be utilised for payment of promised interest and expected principal to PTC A2. The balance amount would then leak out to the Originators on a monthly basis.

The FLF acts as further credit enhancement in the transaction. FLF, which will be provided separately by each of the originators aggregates to 6.69% of the initial pool principal amount (Rs. 7.12 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 pool consists of loans with moderate pre-securitisation amortisation of 35%. The seasoning of the contracts is moderate at 27 weeks. There are no overdue contracts in the pool as on cut-off date. The current pool is diversified across 15 states, with the concentration of top 1 state viz. Tamil Nadu at about 34%. However, at a sub-pool level for each Originator, the geographical concentration is high.

Performance of past rated pools: ICRA has rated 89 Multi Originator transactions backed by pools of MFI entities in the past, of which PTC Series A1 has matured in 81 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 that have completed at least 3 payouts to the investors and where the senior PTCs are live, the performance of most of the sub pools therein has been good with more than 95% collection efficiency and low delinquencies after the Mar-19 payouts. Cash collateral has not been utilized in case of any of these transactions.

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 6.69% 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 7-13 months even in an unlikely scenario of no collections in that originator's sub-pool.

Key rating assumptions

The rating action is based on the trustee 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 Originators

ASA International India Microfinance Limited (ASA)

ASA International India Microfinance Limited (ASA, formerly Dilkusha Hire Purchase Pvt. Ltd, DHPPL) is an indirect subsidiary of ASA International. The latter acquired the entire share capital of DHPPL in June 2008 and renamed the entity as ASA. Subsequently, ASA International infused equity of \$7.5 million (around Rs.31.5 crore) into ASA. As per the share purchase agreement, all assets and liabilities except share capital and bank balances were retained by the previous owners. The new management started their microfinance operations in July 2008.

ASA's lending model is based on individual liability, without any group guarantee mechanism. As on March 31, 2019, it operated through a network of 320 branches, spread across 49 districts in West Bengal, Tripura, Assam, Meghalaya, Bihar and Uttar Pradesh. Its corporate office is in Kolkata (West Bengal) while the registered office is in Jalandhar (Punjab).

As per provisional financials, ASA reported a net profit of Rs. 21.55 crore in 9M FY2019 on a total managed asset base of Rs. 1,099.19 crore as on December 31, 2018. ASA reported net profit of Rs. 20.05 crore (4.18% of ATA) in FY2018 in comparison with Rs. 4.79 crore (1.61% of ATA) in FY2017.

ICRA has a rating outstanding of [ICRA]BBB(Stable) on the bank lines and NCD program of ASA.

Key Financial Indicators (Audited)

	FY2016	FY2017	FY2018	9M FY2019*
Net interest income	15.01	24.03	47.74	48.27
Profit before tax	3.68	8.86	30.62	29.67
Profit after tax	2.29	4.79	20.05	21.55
Total Managed Assets	159.93	446.03	908.61	1,099.19
Total Debt/ Total Net Worth	1.66	4.42	6.82	4.14
% Net profit/Average total assets	2.14%	1.61%	4.18%	4.14%
% Return on Average Net worth	4.86%	6.99%	30.25%	26.97%
Net NPA/Net Advances	0.06%	5.64%	0.10%	0.25%

Source: Company, ICRA research; Amounts in Rs. crore; *Unaudited

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 March 31, 2019, the company had AUM of nearly Rs. 218 crore spreads across 50 branches in three states- Maharashtra, Gujarat and Odisha. It has a PAR of 0.28% as on March 31, 2019.

Key Financial Indicators

	FY2018	H1 FY2019¹
Net interest income	5.6	7.7
Profit after tax	-2.2	-1.0
Portfolio size	117.2	160.7
% CRAR	18.8%	24.6%
Tier 1	12.9%	15.3%
Gearing	3.3	3.7
% Net profit/average managed assets	-3.1%	-1.2%
% Return on net worth	-13.6%	-5.6%
% Gross NPAs	0.05%	0.04%
% Net NPAs	0.03%	0.00%
Net NPA/net worth	0.10%	0.00%

Amount in Rs. crore

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 December 31, 2018, the company had operations in 6 states of Gujarat, Maharashtra, Madhya Pradesh, Uttar Pradesh, Uttarakhand and Rajasthan with a total of 138 branches. The company had a portfolio of Rs. 406 crore as on December 31, 2018 with the company disbursing Rs. 154 crore during Q3FY2019. The company reported 0+ and 30+ delinquency of 1.16% and 0.82%, respectively, as on Dec-18.

Pahal Financial Services Private Limited (Pahal)

Pahal Financial Services Private Limited is an Ahmedabad-based NBFC-MFI registered with the Reserve Bank of India (RBI). The company commenced operations in March 2011 by acquiring the existing operations of Lok Vikas Nidhi, a trust operational in Gujarat for over 25 years. The current promoters of Pahal acquired the portfolio of Rs. 2.6 crore spread over 15 branches, along with the field staff of Lok Vikas and subsequently transferred the acquired portfolio to a non-banking finance company (NBFC), along with an equity contribution of Rs. 2 crore. The NBFC was renamed Pahal Financial Services Private Limited. Pahal follows the Grameen model of lending to poor women primarily in the rural and semi-urban areas of Gujarat, Maharashtra and Madhya Pradesh (MP).

The company reported a profit after tax (PAT) of Rs. 3.17 crore in H1 FY2019 on a total managed portfolio of Rs. 361.24 crore as on September 30, 2018. It reported a loss of Rs. 6.57 crore in FY2018 on a total managed portfolio of Rs. 223.02 crore compared to a net profit of Rs. 1.88 crore on a total managed asset base of Rs. 128.48 crore in FY2017. The company reported a CRAR of 21.61% as on September 30, 2018, above the regulatory level of 15%.

As of March 2019, Pahal was operating with 97 branches in five states and had a loan portfolio of Rs. 495.72 crore extended to 2,16,059 individual borrowers. Gujarat accounted for 52.9% of Pahal's total portfolio. The company follows monthly collections for the Grameen model.

¹ Provisional

ICRA has a rating outstanding of [ICRA]BBB-(Stable) on the bank lines and NCD programme of Pahal.

Key financial indicators (audited)

Particulars	FY2018	FY2019
Profit after tax	(6.57)	7.51
Net worth	35.27	55.88
Total managed portfolio	223.02	495.72
Gearing	6.40	7.86
CRAR	24.05%	22.94%
Net worth/managed assets (%)	15.81%	11.27%
Return on equity	(19.19)%	13.89%

Source: ICRA research; All ratios as per ICRA's calculations; Amount in Rs. crore

S.M.I.L.E. Microfinance Limited (S.M.I.L.E)

S.M.I.L.E. Microfinance Limited (SML) was started in 2004 to provide credit services to the urban and rural poor. The company was registered as a non-deposit taking NBFC in January 2006 and received the MFI licence in May 2015. SML provides credit to economically-backward women through the joint liability group mechanism. DWM Investments (Cyprus) Limited infused equity of Rs. 25 crore each in FY2010 and FY2011 and holds a stake of about 66.6% in the company, at present. The promoter group² held 18.6% while women members (erstwhile and current) owned 13.3% and associates held 1.5%. As on March 31, 2019, SML was present across 28 districts in 3 states, with total portfolio outstanding of Rs. 515.00 crore.

ICRA has a rating outstanding of [ICRA]BBB(Stable) on the bank lines and NCD program of SML.

Key financial indicators

	FY 2017 (audited)	FY2018 (audited)	9M FY2019 (unaudited)
Total Income	65.1	97.4	85.9
Profit after Tax	8.3	16.8	21.1
Net worth	92.4	109.2	130.4
Total Managed Portfolio	346.2	473.8	426
Total Managed Assets	445.5	566.9	566.4
Return on Average Managed Assets (%)	0.023	0.033	0.05
Return on Average Net worth (%)	9.50%	16.70%	23.50%
Gross NPA (%)	0	0.001	0.003
Net NPA (%)	0.00%	0.00%	0.00%
Net NPA / Net worth	0	0	0
Managed Gearing (times)	3.5	4.1	3.2
CRAR [^] (%)	0.275	0.233	0.306

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

² Promoter group – Mr. Sethuraman's family and friends - 3.0%; Mr. Gurushankar (Mr. Sethuraman's son) – 15.6%

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 March 31, 2019, the company operated in 235 branches in seven states including Bihar (30%), Odisha (29%), Jharkhand (17%), Maharashtra (11%), Karnataka (11%) 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. As per the provisional financials for 9M FY2019, VFPL reported a net profit of Rs. 18.45 crore on a managed portfolio of Rs. 1,031.37 crore as on December 31, 2018.

ICRA has a rating outstanding of BBB (Stable) to the NCDs and long-term bank lines of Vaya. The company reported 0+ and 30+ delinquency of 1.55% and 0.74%, respectively, as on Mar-19.

Key financial indicators (Audited)

	FY2017	FY2018	9M FY2019*
Net interest income	0.00	1.46	27.81
Profit before tax	3.66	4.62	26.90
Profit after tax	5.60	3.67	18.45
On-book portfolio	0.00	92.01	399.60
Managed portfolio (including off-balance sheet receivables)	376.69	689.11	1,031.37
Total managed assets	431.65	819.04	1,137.12
% Tier-1	NA	34.23%	35.27%
% CRAR	NA	34.23%	35.27%
Gearing (times)	1.21	2.76	1.85
% Net profit/Average managed assets	1.57%	0.59%	2.51%
% Return on net worth	41.46%	10.31%	22.26%
% Gross NPA^	0.00%	0.00%	0.02%
% 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

Status of non-cooperation with previous CRA: N.A.

Any other information: None

Rating history for last three years

Table:

S.No	Name of Instrument	Current Rating (FY 2020)			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. crores)	Amount outstanding (Rs. crores)	Month-year & Rating July 2019	Month-year & Rating in FY2019 April 2019*	Month-year & Rating in FY2018	Month-year & Rating in FY2017
1	Northern Arc 2019 Mosec Kree	PTC Series A1	92.54	92.54	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-
		PTC Series A2	6.38	6.38	[ICRA]BB-(SO)	Provisional [ICRA]BB-(SO)	-	-

**Initial Ratings assigned*

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	PTC Series A1		10.95%	February	92.54	[ICRA]A-(SO)
2019 Mosec Kree	PTC Series A2	March 2019	10.95%	2021	6.38	[ICRA]BB-(SO)

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

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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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