

December 10, 2019

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

Summary of rating action

Trust name	Instrument*	Initial rated amount (Rs. crore)	Current Rated amount (Rs. crore)	Rating action
Northern Arc 2019	PTC Series A1	70.89	70.89	[ICRA]A-(SO), Provisional rating confirmed as final
Mosec Teesta	PTC Series A2	2.44	2.44	[ICRA]BBB-(SO), Provisional rating 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 Teesta trust as final.

In October 2019, ICRA had assigned a Provisional [ICRA]A-(SO) rating (pronounced provisional ICRA A minus structured obligation) to PTC Series A1 and a Provisional [ICRA]BB-(SO) rating (pronounced provisional ICRA triple B minus structured obligation) to PTC Series A2, issued by Northern Arc 2019 Mosec Teesta 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;
- Performance of pool would remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile; further, pool performance would also be exposed to political and communal risks.

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 13.00% of the pool principal (includes principal payable to PTC Series A2 and over-collateralisation). After PTC Series A1 has been fully paid, a subordination of 10.00% of the pool principal will be available for PTC Series A2 (in the form of over-collateralisation). An important feature of the structure of this transaction is that any collection in excess of the promised interest payouts to PTC Series A1 would be first utilised for the payment of the expected principal of PTC Series A1 and then for the expected interest payouts to PTC Series A2. After PTC Series A1 is completely amortised, the same would be utilised for the payment of the promised interest and expected principal to PTC Series 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. The FLF, which will be provided separately by each Originator, aggregates 6.95% of the initial pool principal amount (Rs. 5.67 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 37%. The seasoning of the contracts is also moderate at 32 weeks. There are no overdue contracts in the pool as on the cut-off date. The current pool is diversified across 16 states, with the concentration of the top state viz. Tamil Nadu at about 38%. However, at the sub-pool level, the geographical concentration is higher for each Originator

Performance of past rated pools: ICRA has rated 88 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 previously rated transactions, there has been no shortfall in making the scheduled payments to the PTC Series A1 investors.

ICRA has ratings outstanding on 8 PTC transactions of Satya. The performance of all the pools (having completed at least 3 payouts post securitisation) has been good with the collection efficiency standing above 99% after the October 2019 payouts. ICRA has not rated any standalone transactions of VFPL or SMILE.

Liquidity Position

Liquidity position for PTC Series A1: Strong

As per the transaction structure, only the interest amount is promised to the PTC 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 PTC Series A1 investors.

Liquidity position for PTC Series A2: Adequate

As per the transaction structure, after PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be adequate to meet the promised payouts to PTC Series A2 investors.

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

Rating sensitivities

Positive triggers – The provisional ratings could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency of >95%), on a sustained basis, leading to the build-up of cover from the credit enhancement to around 41% of the pool principal.

Negative triggers – Pressure on the provisional ratings could emerge on the weak collection performance of the underlying pool (monthly collection efficiency of <90%), on a sustained basis, leading to higher-than-expected delinquency levels and credit enhancement (CE) utilisation levels.

About the Originators

Satya MicroCapital Limited

Satya MicroCapital Limited (formerly known as TFC Finvest Limited) is a Delhi-based NBFC, which was incorporated as a limited company in 1995. Satya started its microfinance operations by adopting the joint liability group (JLG) model with a fortnightly collection cycle in November 2016. It offers ticket sizes ranging up to Rs. 50,000, at an interest rate of 24.01-24.51%, depending on the ticket size, along with a 1% processing fee. Satya focusses solely on lending to women (husbands act as co-borrowers) who are starting a new business or enhancing an existing business.

As on June 30, 2019, the company had a presence in 95 districts across 14 states/Union Territories (UTs) through 104 branches with the top state, Bihar, accounting for 18.66% of the total portfolio outstanding. Other states/UTs in the portfolio include Uttar Pradesh, Punjab, Rajasthan, Haryana, Chhattisgarh, Uttarakhand, Odisha, West Bengal, Assam, Delhi, Himachal Pradesh, Jammu & Kashmir and Jharkhand.

In FY2018, the company reported a loss of Rs. 6.39 crore on a managed asset base of Rs. 327.25 crore compared to a net loss of Rs. 1.46 crore on a managed asset base of Rs. 50.12 crore in FY2017. Satya reported a loss of Rs. 2.61 crore in 4M FY2019 on a managed asset base of Rs. 392.03 crore while it reported a loss of Rs. 0.93 crore on a managed asset base of Rs. 334.41 crore in Q1 FY2019. In FY2019, the company reported a profit of Rs. 3.23 crore on assets under management (AUM) of Rs. 621.71 crore as on March 31, 2019 compared to a loss of Rs. 6.39 crore on AUM of Rs. 218.79 crore as on March 31, 2018.

In Q1 FY2020, Satya reported a profit after tax (PAT) of Rs. 3.23 crore on AUM of Rs. 651.34 crore as on June 30, 2019.

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

Key financial indicators

	FY2017	FY2018	FY2019	Q1 FY2020*
Total income	0.96	25.64	90.47	32.87
Net interest income	0.42	8.29	28.73	11.26
Profit before tax	(1.45)	(6.31)	4.46	3.23
Profit after tax	(1.46)	(6.39)	3.23	3.23
Gross portfolio (or AUM)	26.11	218.79	621.71	651.34
Total managed assets	50.12	327.25	893.04	919.21
Net worth	8.16	22.51	91.25	94.48
% Tier 1	25.73%	9.06%	15.44%	14.62%
% CRAR	38.82%	16.14%	22.54%	20.78%
Gearing (managed book)	5.6	7.8	6.4	6.8
% Net profit/average managed assets	(5.67)%	(3.39)%	0.53%	1.42%
% Return on net worth	(30.56)%	(41.69)%	5.67%	13.89%
% Gross NPAs	0.00%	0.00%	0.03%	0.07%
% Net NPAs	0.00%	0.00%	0.00%	0.00%
Net NPA / net worth	0.00%	0.00%	0.00%	0.00%

Source: ICRA research; All values (in Rs. crore) and ratios are as per ICRA calculations

* Provisional financials

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

S.M.I.L.E. Microfinance Limited 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 an MFI licence in May 2015. It provides credit to economically backward women through the JLG 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 group held 18.6% while women members (erstwhile and current) owned 13.3%. As of June 30, 2019, SMILE had a total active member base of 2.7 lakh with a managed portfolio of Rs. 480.2 crore.

The company reported a net profit of Rs. 26.0 crore in FY2019 on a total managed asset base of Rs. 637.2 crore vis-à-vis a net profit of Rs. 16.8 crore on a total managed asset base of Rs. 566.7 crore in FY2018.

SMILE reported a provisional net profit of Rs. 6.4 crore on a managed asset base of Rs. 592.5 crore in Q1 FY2020.

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

Key financial indicators (audited)

	FY2018	FY2019
Net interest income	47.5	58.7
Profit after tax	16.8	26.0
Net worth	109.2	135.2
Total managed portfolio	473.8	515.0
Total managed assets	566.7	637.2
%Return on average managed assets	3.30%	4.31%
%Return on average net worth	16.70%	21.25%
%GNPA	0.10%	0.30%
%NPA	0.00%	0.05%
%Net NPA/Net worth	0.00%	0.18%
% CRAR (managed)	23.20%	28.24%
Gearing (reported; times)	4	3

Note: Amount in Rs. crore; Source: SMILE

Vaya Finserv Private Limited

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 founded and promoted SKS Microfinance (currently known as Bharat Financial Inclusion Limited), one of the earliest microfinance companies in India. VFPL is an authorised business correspondent (BC) for two banks (RBL Bank and Yes Bank) and Reliance Commercial Finance Limited (RCFL) in India. The company provides micro loans under the JLG model and credit-linked insurance. Its loans qualify for priority sector lending for banks. As on June 30, 2019, VFPL operated in 87 districts in seven states including Bihar (32%), Odisha (28%), 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. 3.7 crore on a managed portfolio of Rs. 689.1 crore compared to a net profit of Rs. 5.6 crore on a managed portfolio of Rs. 376.7 crore in FY2017. In FY2019, VFPL reported a net profit of Rs. 28.3 crore on a managed portfolio of Rs. 1,109.7 crore.

ICRA has a rating of [ICRA]BBB with a Stable outlook for the NCD programme and term loans of VFPL.

Key financial indicators (audited)

	FY2017	FY2018	FY2019
Net interest income	0.00	1.46	39.95
Profit after tax	5.60	3.67	28.31
Managed portfolio	376.69	689.11	1,109.70
% Tier-1	NA	34.23%	36.45%
% CRAR	NA	34.23%	36.82%
Gearing – on-book portfolio (times)	1.21	2.76	1.93
% Net profit/Average managed assets	1.57%	0.59%	2.74%
% Return on net worth	41.46%	10.31%	24.65%
% Gross NPA^	0.00%	0.00%	0.06%
% Net NPA^	0.00%	0.00%	0.00%
Net NPA/Net worth	0.00%	0.00%	0.00%

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

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

Any other information: None

Rating history for last three years

S.No	Name of Instrument	Type	Current Rating (FY 2020)			Chronology of Rating History for the past 3 years			
			Rated amount (Rs. crores)	Amount outstanding (Rs. crores)	Date & Rating	Rating in FY 2020	Rating in FY2019	Rating in FY2018	Rating in FY2017
1	Northern Arc 2019	PTC Series A1	70.89	70.89	10-Dec-2019 [ICRA]A-(SO)	*07-Oct-2019 Provisional [ICRA]A-(SO)	-	-	-
	Mosec Teesta	PTC Series A2	2.44	2.44	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(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	September	11.25%	July 2021	70.89	[ICRA]A-(SO)
2019 Mosec Teesta	PTC Series A2	2019	11.25%		2.44	[ICRA]BBB-(SO)

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

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About ICRA Limited:

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