

Press Release

Mitrata Inclusive Financial Services Private Limited - CredAvenue Jamal 01 2021

March 03, 2021



Rating Assigned

Pass Through Certificates (PTCs)	Rs. 8.10 Cr
Provisional Long Term Rating	ACUITE PROVISIONAL BBB(SO) (Assigned)

Rating Rationale

Acuité has assigned the rating of '**ACUITE PROVISIONAL BBB(SO)**' (**read as ACUITE Provisional triple B (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 8.10 Cr issued by CredAvenue Jamal 01 2021 under a securitisation transaction originated by Mitrata Inclusive Financial Services Private Limited (MIFSPL) (The Originator). The PTCs are backed by a pool of loans provided to individuals for MFI with principal outstanding of Rs. 9.20 Cr (including Rs. 1.10 Cr of over collateralisation).

The provisional rating addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date of December 17, 2022, in accordance with the transaction documentation. The transaction is structured at par.

The provisional rating is based on the strength of cash flows from the selected pool of contracts; the credit enhancement is available in the form of

- (i) Over collateralisation of 12.0% percent of the pool principal;
- (ii) Cash collateral of 3.00% of the pool principal; and
- (iii) Excess Interest Spread of Rs. 1.01 Cr. i.e. 11.02 % of the pool principal

The final ratings will be contingent on the fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by Acuité.

About the Originator

Mitrata Inclusive Financial Services Private Limited ("MIFSPL") is an NBFC-MFI; the company was incorporated as Sona Finance Private Limited (SFPL) in 1985 by V. Nagarajan and was engaged in SME lending prior to being taken over by the current promoters in 2017.

Mitrata is promoted by a social development professional and retail banking professional. Dr. Aqueel Khan is Phd in Women Empowerment and Mr. Prabhakar Rawat was Head of retail banking for Barclays in Rajasthan. MIFSPL provides microfinance credit through the women Joint Liability Group Model (JLG).

Mitrata was started as a small NGO program in 2010 in U.P. It started as a response to income generation needs of the community where ASK/ATG, the parent NGO who were working on Child Education, Health, Nutrition, Women development etc. Considering the rapport and relationship with the community the program started expanding to artisans, self-employed women and to rural communities. An initial revolving fund of Rs.1 cr was allocated, and gradually the portfolio started building through its organic growth.

In 2016 the promoters purchased an existing NBFC by the name of Sona Finance Pvt Ltd. The NBFC purchased

the portfolio of 8 branches from the NGO at par value amounting to 6.75 cr and started operation from September 01, 2017. SFPL obtained its NBFC-MFI license on 18 April 2018. The name was changed to MIFSPL on 20th December 2018.

MIFSPL has reported net profit of Rs. 34.54 lakhs on operating income of Rs. 14.48 Cr in FY2020. In FY2019, MIFSPL had reported net profit of Rs. 6.02 Lakhs on operating income of Rs.7.10 Cr. As on Dec 31, 2020, MIFSPL has an outstanding loan portfolio of Rs.129.06 Cr spread over 41 branches of 05 states. The company's portfolio outstanding witnessed a growth from Rs.43.80 Cr to Rs.129.06 Cr till Dec FY2020.

Assessment of the pool:

MIFSPL has Asset Under Management of Rs. 72.25 Cr as on December 31, 2020. The current pool being securitised comprises 12.73% of the total loan exposures. The current pool comprises of MFI loans extended to 3,172 individual borrowers. The initial pool of Rs. 9.20 Cr (original amount) are unsecured and are repayable fortnightly and monthly. The pool has an average ticket size of Rs. 37,253, minimum ticket size of Rs. 22,500 and maximum of Rs. 50,000. The current average outstanding per borrower stands at Rs. 29,004. The weighted average original tenure for the pool is 27.03 months (minimum 19 months and maximum 35.5 months). The pool has weighted average seasoning of 8.51 months, with minimum 3 months seasoning and maximum 18 months seasoning. All the loans in the pool are current as on the pool cut-off date, Jan 31, 2021.

The pool is concentrated in Uttar Pradesh (52.9%), followed by Bihar (35.2%), Haryana (7.1%), Madhya Pradesh (2.2%) and Rajasthan (2.0%). The customers belong to agriculture-allied activities industry (63.9%), small business industry (35.7%) and handloom handicraft industry (0.3%).

Credit Enhancements (CE)

The transaction is supported in the form of

- (i) Over collateralisation of 12.0% percent of the pool principal;
- (ii) Cash collateral/ First Loss Credit Enhancement of 3.00% of the pool principal; and
- (iii) Excess Interest Spread of Rs. 1.01 Cr. i.e. 11.02 % of the pool principal

The provisional rating addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date of December 17, 2022, in accordance with transaction documentation.

Transaction Structure:

The transaction is structured at par. Collections of a particular month will be utilized to make promised interest and expected principal payouts to Series 1 PTCs and expected interest payment to Series 1 PTCs.

Assessment of Adequacy of Credit Enhancement:

Acuité has arrived at a base case delinquency estimate of 4.0 – 5.0 % in respect of the loan assets being securitised. Acuite has further has applied appropriate stress factors to the base loss figures to arrive at the final loss estimates and consequently, the extent of credit enhancement required. The final loss estimates also consider the risk profile of the particular asset class i.e. unsecured loans, the borrower strata, economic risks

and the demonstrated collection efficiency over the past eleven months. Acuité has also considered the limited track record of operations of the originator and certain pool parameters while arriving at the final loss estimate. Acuité has accounted for the probable impact of COVID19 in the transaction for its analysis.

Legal Assessment:

The provisional rating is based on draft term sheet, the conversion of rating from provisional to final, shall include, besides other documents, the legal opinion to the satisfaction of Acuite. The legal opinion shall cover, adherence to RBI guidelines, true sale, constitution of the trust, bankruptcy remoteness and other related aspects.

Key Risks

Counterparty Risks:

The pool has an average ticket size of Rs. 37,253, minimum ticket size of Rs. 22,500 and maximum of Rs. 50,000. Considering their vulnerable credit profile of the borrowers, the risk of delinquencies/defaults are elevated. These risks of delinquencies are partly mitigated, considering the efficacy of the originator's origination and monitoring procedures.

Concentration Risks:

Since the pool is entirely granular, i.e. underlying assets in the pool are in nature of MFI loans to 3,172 individual borrowers, hence the risk is significantly mitigated.

Prepayment Risk:

The pool is subject to prepayment risks since rate of interest is significantly high and borrowers may be inclined to shift to low cost options (based on availability). Prepayment risks are partially mitigated by prepayment penalty levied by the company for pre-closures. In case of significant prepayments, the PTC holders will be exposed to interest rate risks, since the cash flows from prepayment will have to be deployed at lower interest rates.

Servicing Risk

There is limited track record of servicing PTCs, since this is the first PTC transaction for the originator.

Commingling Risk

The transaction is subject to commingling risk since there is a time gap between last collection date and transfer to payout account.

Regulatory Risk

In the event of a regulatory stipulation impacting the bankruptcy remoteness of the structure, the payouts to the PTC holders may be impacted.

Liquidity Position – Adequate

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to 3.0% of the pool principal. The PTC payouts will also be supported by an internal credit enhancement in the form of over collateralisation (12.00 % of pool principal) and excess interest spread (11.02 % of pool principal).

Key Rating sensitivity

- Collection performance of the underlying pool
- Credit quality of the underlying borrowers
- Decrease in cover available for PTC payouts from the credit enhancement

Material Covenants

The following covenant is included in the transaction structure: The purchase consideration to be paid by the issuer to the originator for purchasing the pool is equal to Series A1 issue price.

Key Financials – Originator - Standalone

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	89.69	56.49
Total Income*	Rs. Cr.	7.29	4.61
PAT	Rs. Cr.	0.35	0.06
Net Worth	Rs. Cr.	24.23	13.43
Return on Average Assets (RoAA)	(%)	0.47	0.17
Return on Average Net Worth (RoNW)	(%)	1.83	0.64
Debt to Equity ratio	Times	2.61	2.43
GNPA	(%)	0.01	0

*Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable):

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Securitised transactions - <https://www.acuite.in/view-rating-criteria-48.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

None

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Series A1 PTC	-	-	8.10	ACUITE PROVISIONAL BBB(SO) (Assigned)

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About Acuité Ratings & Research:

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