

Press Release

Moneyboxx Finance Limited - Northern Arc 2021 SBL Stresemann

July 19, 2021

Rating Assigned



Pass Through Certificates (PTCs)	Rs. 7.42 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 minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 7.42 Cr issued by Northern Arc 2021 SBL Stresemann under a securitisation transaction originated by Moneyboxx Finance Limited (MFL) (The Originator). The PTCs are backed by a pool of unsecured business loans with principal outstanding of Rs. 8.25 Cr (including Rs. 0.82 Cr of over collateralisation).

The provisional rating factors in the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date of December 28, 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 10.0% of the pool principal;
- (ii) Cash collateral of 7.50% of the pool principal; and
- (iii) Excess Interest Spread of 12.54% of the pool principal

The rating of the PTCs is provisional and shall be converted to final rating subject to the execution of the following documents:

1. Trust Deed
2. Deed of Assignment
3. Servicing Agreement
4. Legal Opinion
5. Final Term Sheet

About the Originator

MoneyBoxx Finance Limited (MBFL) is a BSE Listed NBFC providing small ticket loans to micro and small enterprises. It started operations in February 2019, and, as on March 31, 2021, it operates in 4 states, i.e., Rajasthan, Haryana, Madhya Pradesh and Punjab through 22 branches. The company is registered with RBI as Non-systematically Important NBFC engaged in lending and allied activities. The entity is primarily engaged in commercial unsecured lending to MSMEs. As on March 31, 2021, MFL has 228 employees and 6,800 active borrowers.

MFL is promoted by Mayur Modi (Co-CEO and COO) and Deepak Aggarwal (Co-CEO and CFO) who are

chartered accountants with around 2 decades of experience in the financial services industry. At the board level, MFL has experienced independent directors – Uma Shankar Paliwal, ex-executive director of RBI and independent director on multiple NBFCs, and Ratna Vishwanathan, ex-IAS Officer from CAG, ex-CEO of MFIN and currently heading India operations of a global NGO.

While the company's scale of operations is modest, its AUM has grown to Rs. 63.27 Cr as on March 31, 2021 from Rs. 29.93 Cr as on March 31, 2020. MFL's GNPA stood at 0.22% (90+ dpd basis) as on March 31, 2021 as against NIL as on March 31, 2020. The company reported a PAT of Rs. (2.97) Cr as on March 31, 2021, as compared to Rs. (3.55) Cr as on March 31, 2020.

Assessment of the pool:

MFL has Asset Under Management of Rs. 63.27 Cr as on March 31, 2021. The current pool being securitised comprises 13.04% of the total AUM.

The underlying pool in the current Pass Through Certificate (PTC) transaction comprises of unsecured business loans extended towards 893 micro enterprise borrowers, with an average ticket size of Rs. 1.25 lakhs, minimum ticket size of Rs. 50,000 and maximum of Rs. 2.5 lakhs. The current average outstanding per borrower stands at Rs. 92,384. The weighted average original tenure for pool is 18.33 months (minimum 3 months & maximum 36 months). The pool has weighted average seasoning of 7.44 months (minimum 6 months seasoning and maximum of 19 months seasoning).

98.5% of the pool under consideration was not under moratorium and all the loans are current as on pool cut-off date, May 31, 2021. Furthermore, all the loans have remained current over the last six months.

The pool is concentrated in Rajasthan (35.8%), followed by Madhya Pradesh (34.7%), Haryana (18.2%) and Punjab (11.35%). The loans belong to the categories of livestock (71.4%), trading (16.7%), kirana (6.3%), manufacturing (5.2%) and services (0.5%).

Credit Enhancements (CE)

The transaction is supported in the form of

- (iv) Over collateralisation of 10.0% of the pool principal;
- (v) Cash collateral of 7.50% of the pool principal; and
- (vi) Excess Interest Spread of 12.54% of the pool principal

Transaction Structure:

The transaction is structured at par. The structure envisages the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date, in accordance with transaction documentation.

Assessment of Adequacy of Credit Enhancement:

Acuite has arrived at a base case delinquency estimate of 1.4% – 2.5 % 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 few months. Acuite has also considered the track record of operations of the originator and certain pool parameters while arriving at the final loss estimate. Acuite has accounted for the probable impact of the Covid pandemic on the transaction for its analysis.

Legal Assessment:

The provisional rating is based on a 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. 1.25 lakhs, minimum ticket size of Rs. 50,000 and maximum of Rs. 2.5 lakhs. Considering the 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:

The pool is fairly granular with the underlying assets in the pool in the nature of unsecured business loans to 893 borrowers and an average loan size of Rs 1.25 lakhs. However, there is a moderate state-wise geographical concentration in the pool; the pool is concentrated in Rajasthan (35.8%), followed by Madhya Pradesh (34.7%), which is partially mitigated as the pool is spread across 13 branches.

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. However, this risk is mitigated by the fact that the company's underlying borrowers have a healthy repayment track record over the past 2 years, and the pool has remained current over the last 6 months.

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 7.50% of the pool principal. The PTC payouts will also be supported by internal credit enhancements in the form of over collateralisation (10.00 % of pool principal) and excess interest spread (12.54 % of pool principal).

Key Rating sensitivity

- Collection performance of the underlying pool
- Credit quality of the originator
- 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.

Outlook: Not Applicable

Key Financials – Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	72.19	45.16
Total Income*	Rs. Cr.	7.36	3.31
PAT	Rs. Cr.	(2.97)	(3.55)
Net Worth	Rs. Cr.	24.15	27.13
Return on Average Assets (RoAA)	(%)	(5.07)	(11.04)
Return on Average Net Worth (RoNW)	(%)	(11.60)	(15.38)
Debt to Equity ratio	Times	1.92	0.63
GNPA	(%)	0.22	0.00
NNPA	(%)	0.11	0.00

*Total Income equals to Net Interest Income plus Other Income

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

None

Any other information

None

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

In the absence of the pending steps/ documents the PTC structure would have become null and void, and Acuite would not have assigned any rating.

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

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	Not Applicable	Not Applicable	7.42	ACUITE Provisional BBB-(SO) (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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