Press Release

Svakarma Finance Private Limited – Northern Arc 2021 SBL Marina

November 02, 2021

Rating Assigned

Pass Through Certificates (PTCs)	Rs. 4.35 Cr
Provisional Long Term Rating	ACUITE PROVISIONAL BBB(SO) (Assigned)

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE PROVISIONAL BBB(SO)**' **(read as ACUITE Provisional triple B (Structured Obligation))** to the Pass Through Certificates (PTCs) of Rs. 4.35 Cr issued by Northern Arc 2021 SBL Marina (the Trust) under a securitisation transaction originated by Svakarma Finance Private Limited (SFPL) (The Originator). The PTCs are backed by a pool of secured and unsecured MSME loans with principal outstanding of Rs. 4.92 Cr (including Rs. 0.42 Cr of over collateralisation). The transaction also includes Equity Tranche PTCs of Rs. 0.15 Cr, and any redemption of Equity Tranche PTCs shall be fully subordinated to the Series A1 PTCs (Rs. 4.35 Cr) payments.

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 January 17, 2025, 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 8.5% of the pool principal;

(ii) Cash collateral of 8.00% of the pool principal;

(iii) Excess Interest Spread of 14.08% of the pool principal, and

(iv) A subordinated equity tranche of 3.00% of the pool principal as investment by the originator. The Series A1 PTCs have a quantum of Rs 4.35 Cr.

The rating of the Series A1 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

Incorporated in 2017, Mumbai based SFPL is an NBFC that lends to Micro, Small and Medium enterprises (MSMEs). The company structures financing solutions for business needs of the enterprise, linking the repayment structures to the underlying cash flows. SFPL lends to enterprises across select clusters such as Handloom, Textiles, Foundry, Engineering & Machinery, Tooling, Fabrication, Food processing, Chemicals, Pharmaceuticals and Retail. As on September 30, 2021, its AUM stood at Rs. 43.33 Cr.

SFPL is headed by Kalpana Iyer (MD & CEO) and co-founded by Vivek Vig (Chairman), Anuradha Nadkarni and Kaushik Mazumdar, each of whom has more than three decades of experience across functions in retail and wholesale banking.

The company's AUM increased to Rs. 43.92 Cr as on March 31, 2021 from Rs. 29.80 Cr as on March 31, 2020, before shrinking slightly to Rs. 43.33 Cr as on September 30, 2021. SFPL's GNPA and NNPA levels worsened to 6.8% and 5.4% respectively as on March 31, 2021 from 2.3% and 1.0% respectively as on March 31, 2020. This indicates a deterioration of asset quality due to the impacts of Covid19. The company reported a loss of Rs. 6.13 Cr as on March 31, 2021, as compared to a loss of Rs. 8.09 Cr as on March 31, 2020.

Assessment of the pool:

Under its branch-sourced product, SFPL's secured MSME loans' AUM stood at Rs. 28.39 Cr while that for its unsecured MSME loans was Rs. 7.55 Cr as on September 30, 2021. The current pool being securitised comprises of 15.5% (secured MSME) and 8.0% (unsecured MSME) of their respective AUMs.

Secured MSME portion:

The underlying secured portion in the current Pass Through Certificate (PTC) transaction comprises of secured MSME loans with principal outstanding of Rs. 4.31 Cr. These loans are extended towards 148 borrowers, indicating moderate granularity in this asset class, with an average ticket size of Rs. 4.6 lakhs, minimum ticket size of Rs. 75,000 and maximum of Rs. 31.7 lakhs. The current average outstanding per borrower stands at Rs. 2.9 lakhs. The weighted average original tenure for the pool is 34.6 months (minimum 22 months & maximum 48 months). The pool has a healthy weighted average seasoning of 13.05 months (minimum 7 months seasoning and maximum of 29 months seasoning). At 37.07%, the pool's initial amortisation is significant.

All the loans in the pool are current as of the cut-off date. 91.8% of the loans have remained current since origination, and none of the loans have gone beyond 29 dpd since origination.

57.06% of the borrowers are concentrated in Maharashtra followed by 42.94% in Tamil Nadu, suggesting high geographical concentration. The top 10 borrowers of pool constitute 17.47% of the pool principal outstanding.

Unsecured MSME portion:

The underlying unsecured portion in the current Pass Through Certificate (PTC) transaction comprises of unsecured MSME loans with principal outstanding of Rs. 0.60 Cr. These loans are extended towards 43 borrowers, indicating moderate granularity in this asset class, with an average ticket size of Rs. 2.7 lakhs, minimum ticket size of Rs. 1.0 lakh and maximum of Rs. 5.0 lakhs. The current average outstanding per borrower stands at Rs. 1.4 lakhs. The weighted average original tenure for the pool is 31.0 months (minimum 12 months & maximum 37 months). The pool has a healthy weighted average seasoning of 14.09 months (minimum 7 months seasoning and maximum of 33 months seasoning). At 48.22%, the pool's initial amortisation is significant.

All the loans in the pool are current as of the cut-off date. 92.9% of the loans have remained current since origination, and none of the loans have gone beyond 29 dpd since origination.

78.1% of the borrowers are concentrated in Maharashtra followed by 21.9% in Tamil Nadu, suggesting high geographical concentration. The top 10 borrowers of pool constitute 44.89% of the pool principal outstanding.

Credit Enhancements (CE)

The Series A1 PTCs is supported in the form of

(i) Over collateralisation of 8.5% of the pool principal;

(ii) Cash collateral of 8.00% of the pool principal;

(iii) Excess Interest Spread of 14.08% of the pool principal, and

(iv) A subordinated equity tranche of 3.00% of the pool principal as investment by the originator. The Series A1 PTCs have a quantum of Rs 4.35 Cr.

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:

Acuité has arrived at a base case delinquency estimate of 2.8% – 3.8 % in respect of the loan assets being securitised. Acuite has further 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. Acuité has also considered the track record of operations of the originator and certain pool parameters while arriving at the final loss estimate. Additionally, Acuité has accounted for the probable impact of the Covid19 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 Acuité. 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:

Considering the moderately 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 moderately granular. However, there is a high state-wise geographical concentration in the pool.

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 fair repayment track record over the past few years, and about 92% of the loans have remained current since origination.

Comingling 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 8.00% 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 (11.49% of pool principal). The transaction also includes Equity Tranche PTCs of Rs. 0.15 Cr, and any redemption of Equity Tranche PTCs shall be fully subordinated to the Series A1 PTCs (Rs. 4.35 Cr) payments.

Key Rating sensitivity

- Collection performance of the underlying pool
- Credit quality of the originator
- Any decrease in cover available for PTC payouts from the credit enhancement

Material Covenants

The following covenant is included in the transaction structure:

On each Payout Date the amounts present in the collection and payment account by way of:

- proceeds realised by the Trustee from the Receivables in the Collection Period immediately preceding the relevant Payout Date and deposited in the collection and payment account by the Servicer;
- any amounts then available in the collection and payment account; and
- amounts drawn, to the extent necessary, from the Credit Enhancement and transferred to the collection and payments account in accordance with the Transaction Documents, shall be utilized by the Trustee as per the waterfall mechanism.

Outlook: Not Applicable

Key Financials – Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	50.96	39.74
Total Income*	Rs. Cr.	4.62	4.20
PAT	Rs. Cr.	(6.13)	(8.09)
Net Worth	Rs. Cr.	18.61	20.72
Return on Average Assets (RoAA)	(%)	(13.51)	(24.26)
Return on Average Net Worth (RoNW)	(%)	(31.15)	(35.37)
Debt to Equity ratio	Times	1.54	0.81
GNPA	(%)	6.8	2.3
NNPA	(%)	5.4	1.0

**Total Income equals to Net Interest Income plus Other Income*

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

None

Any other information

None

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) Acuité 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 Acuité 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

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Series A1 PTC	Not Applicable	Not Applicable	Not Applicable	4.35	ACUITE PROVISIONAL BBB(SO) (Assigned)

Contacts

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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 8,850 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 Kanjurmarg, Mumbai.