

Press Release

Svakarma Finance Private Limited – Northern Arc 2021 SBL Marina

January 31, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Pass Through Certificates (PTCs)	0.62	ACUITE BBB SO Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	0.62	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB (SO)**' (read as **ACUITE triple B (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 0.62 Cr. (as per January 2023 payout) issued by Northern Arc 2021 SBL Marina 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. 1.18 Cr. (including Rs. 0.56 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 payments.

The rating reaffirmation takes into account the significant pool amortisation of 75.92 percent with no utilisation of cash collateral and the increase of cash collateral level to 33.23 percent of the current pool principal outstanding. However, the overall servicer collection efficiency (excluding prepayments) for December 2022 stood moderate at 63.67 percent. As of December 2022, the 90+dpd as a percentage of Original POS stood at 1.57 percent, with the 180+dpd at 0.05 percent.

The 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 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 Rs. 0.56 Cr.;
- (ii) Cash collateral of Rs. 0.39 Cr.;
- (iii) Excess Interest Spread of Rs. 0.14 Cr. and
- (iv) A subordinated equity tranche of Rs. 0.15 Cr. as investment by the originator.

The Series A1 PTCs have an outstanding quantum of Rs. 0.62 Cr. as per January 2023 payout.

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, 2022, its AUM stood at Rs. 56.89 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. 56.89 Cr. as on September 30, 2022 from Rs. 43.92 Cr. as on March 31, 2021. SFPL's GNPA and NNPA levels for on book portfolio worsened to 21.46 percent and 13.33 percent respectively as on March 31, 2022 from 6.81 percent and 5.37 percent respectively as on March 31, 2021. This indicates a deterioration of asset quality due to the impact of Covid-19. As on December 2022, the GNPA and NNPA stood at 12.7 percent and 9.3 percent respectively. The company reported a loss of Rs. 8.36 Cr. as on March 31, 2022 as compared to a loss of Rs. 6.13 Cr. as on March 31, 2021. For H1FY23, the company reported a loss of Rs. 3.80 Cr.

Assessment of the Pool

Secured MSME portion:

As per initial rating, the underlying secured portion in the current Pass Through Certificate (PTC) transaction comprised of secured MSME loans with principal outstanding of Rs. 4.31 Cr. These loans were 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 average outstanding per borrower stood at Rs. 2.9 lakhs. The weighted average original tenure for the pool was 34.6 months (minimum 22 months & maximum 48 months). The pool had a healthy weighted average seasoning of 13.05 months (minimum 7 months seasoning and maximum of 29 months seasoning). All the loans in the pool were current as of the cut-off date. 91.8 percent of the loans had remained current since origination, and none of the loans had gone beyond 29 dpd since origination. 57.06 percent of the borrowers were concentrated in Maharashtra followed by 42.94 percent in Tamil Nadu, suggesting high geographical concentration. The top 10 borrowers of pool constituted 17.47 percent of the pool principal outstanding.

As of December 2022, the underlying secured portion comprised of secured MSME loans with principal outstanding of Rs. 1.18 Cr. These loans are extended towards 84 borrowers with an average ticket size of Rs. 7.21 lakhs, minimum ticket size of Rs. 1.5 lakhs and maximum of Rs. 10 lakhs. The average outstanding per borrower stands at Rs. 1.4 lakhs. The weighted average original tenure for the outstanding pool is 32.77 months (minimum 24 months & maximum 38 months). The pool has a healthy weighted average seasoning of 21.98 months (minimum 11 months seasoning and maximum of 35 months seasoning). As on December 2022, 14 loans in the current outstanding pool are in the non-current bucket (minimum 27dpd and maximum 392dpd).

Unsecured MSME portion:

As per initial rating, the underlying unsecured portion in the current Pass Through Certificate (PTC) transaction comprised of unsecured MSME loans with principal outstanding of Rs. 0.60 Cr. These loans were 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 average outstanding per borrower stood at Rs. 1.4 lakhs. The weighted average original tenure for the pool was 31.0 months (minimum 12 months & maximum 37 months). The pool had a healthy weighted average seasoning of 14.09 months (minimum 7 months seasoning and maximum of 33 months seasoning). All the loans in the pool were current as of the cut-off date. 92.9 percent of the loans had remained current since origination, and none of the loans had gone beyond 29 dpd since origination. 78.1 percent of the borrowers were concentrated in Maharashtra followed by 21.9 percent in Tamil Nadu, suggesting high geographical concentration. The top 10 borrowers of pool constituted 44.89% of the pool principal outstanding.

As of December 2022, the underlying unsecured portion comprises of an unsecured MSME

loan with principal outstanding of Rs. 11,585. This loan is extended towards a single borrower. The original tenure for the loan is 36 months. The loan has a healthy seasoning of 35 months and is in the current bucket as of December 2022.

Credit Enhancements (CE)

The 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 Rs. 0.56 Cr.;
- (ii) Cash collateral of Rs. 0.39 Cr.;
- (iii) Excess Interest Spread of Rs. 0.14 Cr. and
- (iv) A subordinated equity tranche of Rs. 0.15 Cr. as investment by the originator. The Series A1 PTCs have an outstanding quantum of Rs. 0.62 Cr. as per January 2023 payout.

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 rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, servicing agreement, legal opinion, accounts agreement, assignment agreement and other documents relevant to the transaction.

Key Risks

Counter Party 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.

Servicing Risks

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

Regulatory Risks

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

Prepayment Risks

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.

Commingling Risk

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

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.

Liquidity Position Adequate

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to Rs. 0.39 Cr. The PTC payouts will also be supported by internal credit enhancements in the form of over collateralisation (Rs. 0.56 Cr.) and excess interest spread (Rs. 0.14 Cr.). 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. 0.62 Cr. as per January 2023 payout) payments.

Outlook : Not Applicable

Key Financials - Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	46.65	50.96
Total Income*	Rs. Cr.	4.74	4.77
PAT	Rs. Cr.	-8.36	-6.13
Net Worth	Rs. Cr.	15.50	18.61
Return on Average Assets (RoAA)	(%)	-17.13	-13.51
Return on Average Net Worth (RoNW)	(%)	-49.04	-31.15
Debt/Equity	Times	1.55	1.54
Gross NPA (Own book)	(%)	21.46	6.81
Net NPA (Own Book)	(%)	13.33	5.37

*Total income equals to Net Interest Income plus other income.

Status of Non Cooperation with Other CRA

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Jan 2022	Pass Through Certificates	Long Term	4.35	ACUITE BBB (SO) (Assigned)
02 Nov 2021	Pass Through Certificates	Long Term	4.35	ACUITE Provisional BBB (SO) (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Pass Through Certificate	01 Nov 2021	13.25	17 Jan 2025	Highly Complex	0.62	ACUITE BBB SO Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

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