

Press Release

Inditrade Microfinance Limited - Pegasus 11 2022

December 19, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Pass Through Certificates (PTCs)	8.56	Provisional ACUITE A- SO Assigned	-
Pass Through Certificates (PTCs)	0.95	Provisional ACUITE BBB+ SO Assigned	-
Total Outstanding Quantum (Rs. Cr)	9.51	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned rating of '**ACUITE Provisional A-(SO)**' (read as **ACUITE Provisional A minus (Structured Obligation)**) to the Rs. 8.56 Cr. Series A1 (a) Pass Through Certificates (PTCs). Acuite has also assigned rating of '**ACUITE Provisional BBB+ (SO)**' (read as **ACUITE Provisional triple B plus (Structured Obligation)**) to the Rs. 0.95 Cr. Series A1 (b) PTCs issued by PEGASUS 11 2022 (The Trust) under a securitisation transaction originated by INDITRADE MICROFINANCE LIMITED (The Originator). The PTCs are backed by a pool of loans provided to individuals as Unsecured Business Loans with principal outstanding of Rs. 10.87 Cr. (including Rs. 0.81 Cr. of overcollateralisation).

The provisional rating for Series A1 (a) addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date, in accordance with the transaction documentation. The principal portion of Series A1 (b) PTCs is subordinated to Series A1 (a) PTCs. 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 to the Series A1 (a) PTCs in the form of:

- Cash collateral of 5.00% of the pool principal; and
- Overcollateralisation of 7.50% of the pool principal
- Excess Interest Spread of 6.04% of the pool principal
- Subordinated Series A1 (b) PTC tranche of 8.75% of the pool principal
- An equity tranche of 5.00% of the pool principal

The credit enhancement is available to the Series A1 (b) PTCs in the form of:

- Cash collateral of 5.00% of the pool principal; and
- Overcollateralisation of 7.50% of the pool principal.
- Excess Interest Spread of 6.04% of the pool principal
- An equity tranche of 5.00% 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

Incorporated in 2016, Inditrade Microfinance Limited (IML, erstwhile Tree Microfinance Limited) is an NBFC-MFI engaged in extending microfinance loans to woman borrowers arranged in joint liability groups since 2017. The company has its head office in Mumbai and primarily operates, as of June 2022, through a network of 170 branches across 8 states and 1 Union territory namely Kerala, Tamil Nadu, Karnataka, Bihar, Gujarat, Maharashtra, Odisha, Madhya Pradesh and Puducherry. The company offers funding primarily for income generation activities and education loans for the borrower's children. The company is led by Mr. R. Vignesh (CEO) who has over a decade of experience in financial services. IML's total Assets Under Management (AUM) stood at Rs. 245.72 Cr. as on September 30, 2022.

Assessment of the pool

IML has Asset Under Management of Rs. 245.72 Cr as on September 30, 2022. The underlying pool of Rs. 10.87 Cr in current Pass Through Certificate (PTC) transaction comprises of Unsecured Business loans has been extended towards 5,468 borrowers, displaying significant granularity, with an average ticket size of Rs. 36,531, minimum ticket size of Rs. 5,000 and maximum of Rs. 60,000. The current average outstanding per borrower stands at Rs. 19,871. The weighted average original tenure for pool is of 19.51 months (minimum 12 months & maximum 25 months). The pool has a healthy weighted average seasoning of 7.61 months (minimum 6 months seasoning and maximum of 9 months seasoning). Furthermore, none of the loans in the pool had gone into the Non-CURRENT bucket since origination, which are healthy signs. 57.5% of the customers in the pool belonged to the agriculture-allied industries, followed by 19.4% in the trading industry. 38.62% of the borrowers are concentrated in Karnataka followed by 30.12% in Tamil Nadu and 18.47% in Puducherry, 9.92% in Madhya Pradesh and 2.87% in Gujarat displaying moderate geographical concentration. The top 10 borrowers of pool constitute 0.42% (i.e. Rs.4.59 lakhs) of the pool principal O/s.

Credit Enhancements (CE)

The rating is based on the strength of cash flows from the selected pool of contracts; the credit enhancement is available to the Series A1 (a) PTCs in the form of:

- i. Cash collateral of 5.00% of the pool principal; and
- ii. Overcollateralisation of 7.50% of the pool principal
- iii. Excess Interest Spread of 6.04% of the pool principal
- iv. Subordinated Series A1 (b) PTC tranche of 8.75% of the pool principal
- v. An equity tranche of 5.00% of the pool principal

The credit enhancement is available to the Series A1 (b) PTCs in the form of:

- i. Cash collateral of 5.00% of the pool principal; and
- ii. Overcollateralisation of 7.50% of the pool principal.
- iii. Excess Interest Spread of 6.04% of the pool principal
- iv. An equity tranche of 5.00% of the pool principal

Transaction Structure

The provisional rating for Series A1 (a) addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date, in accordance with the transaction documentation. The principal portion of Series A1 (b) PTCs is subordinated to Series A1 (a) PTCs. The transaction is structured at par.

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. Acuité 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 business loans, the borrower strata, economic risks and the demonstrated collection efficiency over the past eleven months. Acuité has also considered the track record of operations of the originator and certain pool parameters while arriving at the final loss estimate.

Legal Assessment

The final rating will be 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

Counterparty Risks

The pool has average ticket size of Rs. 36,531, minimum ticket size of Rs. 5,000 and maximum of Rs. 60,000. 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

Since the pool is significantly granular, i.e. underlying assets in the pool are in nature of Unsecured business loans to 5,468 individual borrowers, hence the risk is significantly mitigated. The top 10 borrowers of pool constitute 0.42% (i.e. Rs.4.59 lakhs) of the pool principal O/s.

Servicing Risk

There is limited track record of servicing PTCs, since this is one of the first few PTC transactions for the originator rated by Acuité.

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.

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.

Commingling Risk

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

Outlook :

Not Applicable

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 the sum of the Series A1 (a) Issue Price, Series A1 (b) Issue Price and Equity tranche Issue Price.

Liquidity Position

Adequate

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to 5.00% of the pool principal. The Series A1 (a) PTC payouts will also be

supported by a subordinated equity tranche (5.00% of pool principal), Subordinated Series A1 (b) PTC tranche of 8.75% of the pool principal, overcollateralisation of 7.50% of the pool principal and excess interest spread (6.04% of pool principal). The Series A1 (b) PTC payouts will be supported by a subordinated equity tranche (5.00% of pool principal), overcollateralisation of 7.50% of the pool principal and excess interest spread (6.04% of pool principal).

Key Financials - Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	352.96	214.56
Total Income*	Rs. Cr.	24.18	33.60
PAT	Rs. Cr.	1.33	2.23
Net Worth	Rs. Cr.	67.85	56.51
Return on Average Assets (RoAA)	(%)	0.47	1.03
Return on Average Net Worth (RoNW)	(%)	2.14	4.03
Debt/Equity	Times	4.12	2.71
Gross NPA	(%)	1.60	1.44
Net NPA	(%)	0.09	0.01

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

Status of Non Cooperation with other CRAs

None

Any other information

None

Supplementary disclosures for Provisional Ratings

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.

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.

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>
- Application for financial ratios and adjustments - <https://www.acuite.in/view-rating-criteria-53.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 Ratng Criteria "Complexity Level Of Financial Instruments"on www.acuite.in

Rating History

Not Applicable

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	Not Applicable	13.70	Not Applicable	Highly Complex	8.56	Provisional ACUITE A- SO Assigned
Not Applicable	Not Applicable	Pass Through Certificate	Not Applicable	14.20	Not Applicable	Highly Complex	0.95	Provisional ACUITE BBB+ SO Assigned

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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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