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STRUCTURED FINANCE RATINGS

JANUARY 2020

Despite deterioration in asset quality of NBFC-MFIs in Assam, ICRA-rated securitized pools continue to have adequate credit enhancement

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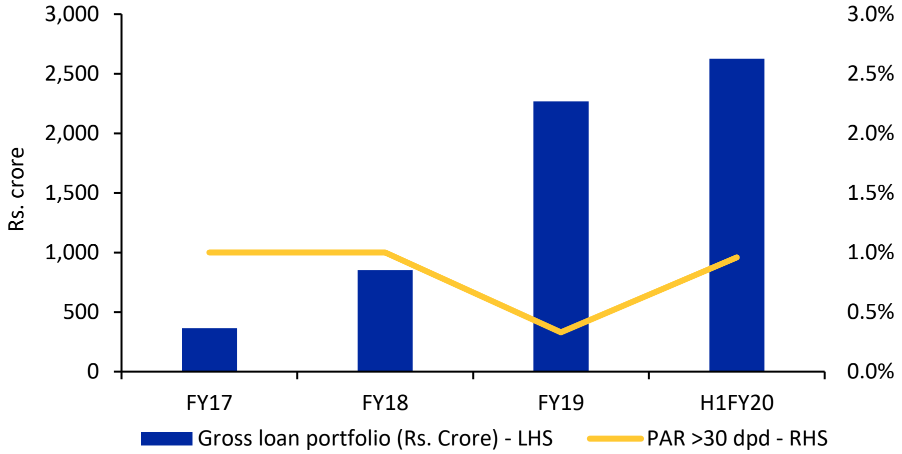
After the impact of demonetization started gradually wearing out, there was a bounce-back in microfinance (MFI) loan portfolio growth in several regions in the country; a notable case in point being Assam. Between December 2017 and December 2019, gross loan portfolio in Assam expanded by about 7 times; aided by a mix of supporting factors such as high loan demand, entry of new players and growth in loan ticket sizes. While the overall exposure to Assam by Banks, SFBs, NBFCs and NBFC-MFIs has been to the tune of Rs. 12,600 as on September 30, 2019, NBFC-MFIs alone had an outstanding exposure of Rs. 2,600 crore in Assam. The rapid loan book growth has led to some concern on the asset quality in the region. Until recent months, the collection efficiency in the state had remained high with 30+dpd remaining below 1% till September 30, 2019, as seen in Exhibit 1. However, the on-going protests and political tensions seem to have impacted MFI operations substantially, with the share of overdue portfolio (0+ dpd) increasing sharply from 1.50% in Sep-19 to around 16.5% in Dec-19 (refer Exhibit 2).

Exhibit 1: NBFC-MFIs' loan portfolio growth trend in Assam pre-protest period

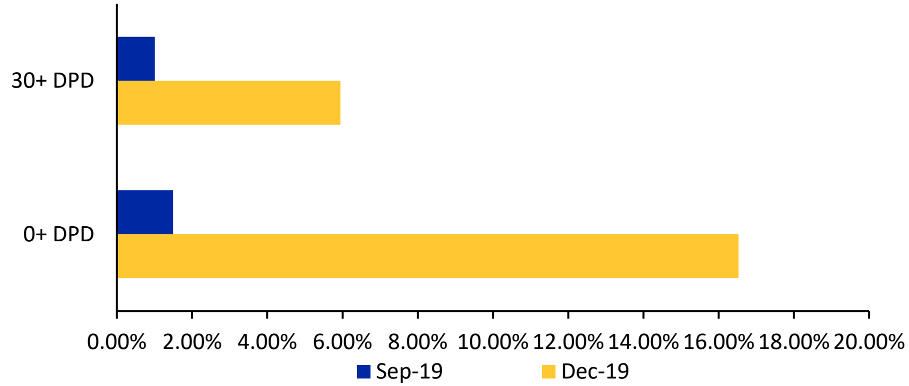


Source: ICRA Research, MFIN Micrometer report

As per ICRA analysis, the districts of Sonitpur, Golaghat, Jarhat, Sivasagar, Dibrugarh and Tinsukia have been highly affected as the center meetings could not take place. In order to estimate the impact, ICRA has conducted the bucket specific portfolio analysis at an aggregate level for Assam portfolio of few key originators (forming ~81% of the NBFC-MFI's loan portfolio in Assam) and it is clearly evident that the softer bucket delinquencies have increased substantially over the previous quarter.

The recent protests in Assam have negatively impacted MFI operations and the softer bucket delinquencies (0+ and 30+ dpd) have shot up in December 2019. However, the actual transitioning to NPA of these MFI loans is expected to be lower on account of expected gradual improvement in overall scenario and implementation of effective collection strategies in affected districts by the lenders. Nonetheless, the NBFC-MFIs' portfolio growth in Assam would remain muted in the near term as lending has been tightened in the region.

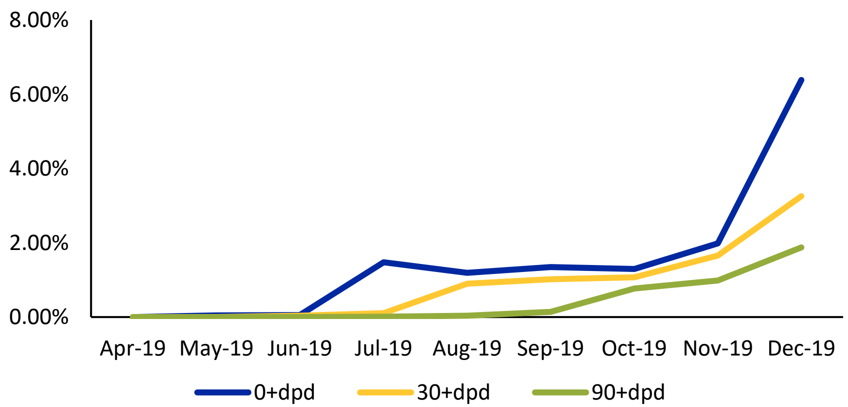
Exhibit 2: 0+dpd and 30+ dpd level of Assam portfolio of key originators at an aggregate level



Source: ICRA Research, Industry

Amongst ICRA-rated transactions that were live as of December 2019, 10 pools have some exposure to Assam. Of these, four pools have a very low exposure to Assam (with share of pool principal belonging to Assam being less than 5% of the total pool size) while the remaining six pools have a higher exposure (upto ~40%). The 0+dpd for the MFI pools having >5% share to Assam state is in the range of 5.26% to 13.44% as on December 2019. There has been a steep spike in 0+dpd in these pools between September 2019 (average 0+dpd as % of initial principal being 1.4%) and December 2019 (average of 0+dpd being over 6%). Also, the 30+ dpd of those pools increased to 3.3% in December 2019 compared to 1% in September 2019.

Exhibit 3: Average delinquencies in 10 ICRA rated MFI pools having exposure to Assam state

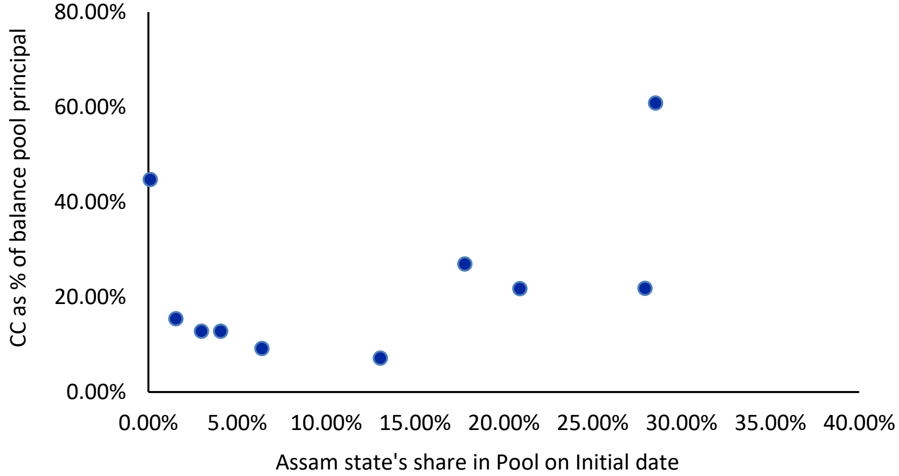


Source: ICRA Research

During December 2019, the monthly collection efficiency of ICRA rated 10 pools were in the range of 72.8% to 99.8%. The average monthly collection efficiency of these pools dropped to 92.6% in December 2019 from 98.4% in September 2019.

However, the share of the affected state in the pool should be looked together with the CE cover available in these transactions. The higher the CE cover, the greater is the cushion available for meeting any collection shortfall and ensuring that the payouts to the investors are made on time. Exhibit 4 below shows the extent of CC cover available in 10 ICRA-rated micro loan pools that have exposure to protest impacted districts in Assam.

Exhibit 4: CC cover and Pool's share in Assam



Source: ICRA Analysis

Majority of the ICRA-rated pools with exposure to the affected districts in Assam have sufficient cover in the form of Credit Enhancement (CE) on account of high amortization and significant build-up of cover led by non-utilization of CC till date. Additionally, the performance of these pools till December 2019 has been good with collection efficiencies of around 96% on an average. Further, majority of micro loan transactions have timely interest and eventual principal promise structure. As a result, any short-term disruption in collection performance should not have any material impact on timely servicing of scheduled PTC payouts.

Exhibit 5 below compares the break-even collection efficiencies (BECE) for pools with exposure to the protest affected districts in Assam with the amortization level in these pools. The break-even collection efficiency is the minimum collection efficiency that a pool needs to exhibit going forward to ensure that all payouts due to the investors (both senior and subordinate) are made in full.

Exhibit 5: Amortization wise break-even collection efficiency (BECE) analysis

	Pool Amortization					
BECE	**0%-20%**	**20%-40%**	**40%-60%**	**60%-80%**	**80%-100%**	**Grand Total**
<50%				3	2	**5**
50%-60%			1			**1**
60-70%	1		2			**3**
70%-80%		1				**1**
Grand Total	**1**	**1**	**3**	**3**	**2**	**10**

Source: ICRA Analysis

As seen in Exhibit 5, five out of the 10 pools have amortized by more than 60%. The BECE in these pools is comfortable at less than 50% against an actual collection efficiency of around 94%. Even in pools that have amortized by less than 40%, only 2 pools have BECE in the region of 70% - 80%. Moreover, the CE cover remains healthy as there have been no instances of CE utilization for these pools.

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ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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