

Erika 06 2022
Originator: Pahal Financial Services Private Limited

July 04, 2022

Ratings

Instrument#	Amount (Rs. Crore)	Structure	Tenure* (months)	Rating ¹	Credit Enhancement [§] (Rs. Crore)	
					Over Collateral	Cash Collateral
Series A1(a) PTCs	27.61 (Rs. Twenty-seven crore and sixty- one lakh only)	Par (TI-UP)	19	Provisional CARE A- (SO) [Single A Minus (Structured Obligation)]	7.45	1.75
Series A1(b) PTCs	3.07 (Rs. Three crore and seven lakh only)			Provisional CARE BBB (SO) [Triple B (Structured Obligation)]	4.38	

Details of instruments/facilities in Annexure-1.

The PTCs are rated based on timely payment of interest and payment of principal on or before the last scheduled payout date.

* Tenure / door-to-door maturity may change due to prepayments or changes in interest rates, if any.

§ EIS shall flow back to the residual beneficiary on a monthly basis.

Rating in the absence of the pending steps/ documents	No rating can be assigned
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Detailed Rationale and Key Rating Drivers

CARE Ratings Ltd (CARE Ratings) has assigned a rating of 'Provisional CARE A- (SO)' [pronounced as 'Single A Minus (Structured Obligation)'] to the Series A1(a) PTCs and rating of 'Provisional CARE BBB (SO)' [pronounced as 'Triple B (Structured Obligation)'] to the Series A1(b) PTCs proposed to be issued by Erika 06 2022 backed by microfinance loans receivables originated by Pahal Financial Services Private Limited ("the Originator" or "PFSP").

The rating assigned is provisional based on the structure provided to CARE Ratings Ltd by the originator. The rating will be confirmed after copies of the legal documents executed in accordance with the structure, a due-diligence audit report by an external auditor and an independent legal opinion is furnished by the originator, to the satisfaction of CARE Ratings Ltd. Consequently, CARE Ratings Ltd will issue a final rating letter.

The final rating will be assigned after copies of the following documents, duly executed in accordance with the structure and to the satisfaction of CARE Ratings Ltd., are furnished by the Originator:

- a. Assignment Agreement
- b. Trust Deed
- c. Power of Attorney
- d. Information Memorandum
- e. Legal Opinion from independent legal counsel
- f. Due Diligence Audit Report
- g. Any other documents executed for the transaction.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

1. Lower than expected delinquencies
2. Build-up of cash collateral (as % of Balance POS)

Negative Factors - Factors that could lead to negative rating action/downgrade:

1. Higher-than-expected delinquencies
2. Sharp deterioration in the credit profile of the originator
3. Non-adherence to key transaction terms envisaged at the time of the rating

Detailed description of the key rating drivers

The transaction is structured at par and the Series A1(a) and Series A1(b) PTCs is rated for timely payment of interest with repayment of principal on or before the final legal maturity.

The credit enhancement for Series A1(a) and Series A1(b) PTCs includes cash collateral of 5.00%, over collateral of 12.50%. and excess interest spread (EIS) of 8.96% (initially) of pool POS in the structure. Cash collateral will be in the form of fixed deposit with a lien marked in favour of the trust as per CARE Ratings Ltd' criteria. The support of both, over collateral and EIS, is subject to realisation. EIS is also subject to the compression on account of prepayments in the pool.

¹ Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The assigned Pool consists of 1,42,775 contracts, aggregating to a principal outstanding of Rs.35.06 crore given as microfinance loans, as on cut-off date June 12, 2022. The top three states account for 81.40%, of which Gujarat accounting for 32%. All the contracts are current on payment. The Pool has weighted an average seasoning of 8.59 months with amortisation of around 38.24%.

Key Rating Strengths:

- The robustness of transaction structure and well-defined payment mechanism;
- Credit enhancement comprising cash collateral, subordination of Series A1(b) PTCs (for Series A1(a) PTCs), subordinated Over Collateral and EIS;
- No overdue contracts as on the Pool cut-off date;
- Underwriting policies and collection capabilities of PFSP;L;
- High weighted average seasoning of around 8.59 months with amortisation of around 38.24%.

Key Rating Weaknesses:

- Moderate concentration with the top three states accounting for 81.40% of the Pool.
- Borrower profile is risky due to socio-political interference.

Liquidity Position – Adequate:

The inherent liquidity in the structure is adequate. The interest payouts for Series A1(a) PTCs and Series A1(b) PTCs are promised on a monthly basis, while the principals of Series A1a PTCs and Series A1a PTCs are promised to be paid by final legal maturity. The principal of Series A1(b) PTCs is fully subordinated to Series A1(a) PTCs. In case of any delinquency, the payouts are expected to be supported by credit enhancement consisting of cash collateral, principal subordination in the form of equity tranche and EIS.

Analytical approach

[CARE's methodology for Asset / Mortgage Backed Securitization](#)

Applicable Criteria

[Assignment of Provisional Rating](#)

[Policy on default recognition](#)

Validity of the Provisional Rating:

The provisional rating will be converted into a final rating after receipt of the above-mentioned transaction documents duly executed/completion of the above-mentioned steps, within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings' Policy on Assignment of Provisional Ratings.

Risks associated with provisional nature of credit rating:

When a rating is assigned pending due to execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings Ltd, the final rating is assigned by CARE Ratings Ltd. In absence of receipt of documents or in case such documents deviate significantly from transaction structure considered by CARE Ratings Limited, the provisional rating will be reviewed / withdrawn in line with the Policy on Assignment of Provisional Ratings and it is possible that no rating may be assigned.

Key Rating Assumptions

CARE Ratings has analysed the transaction to assess whether the Credit Enhancement is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of the underlying Pool, CARE Ratings has analysed the performance of static pools provided by the Originator and overall portfolio performance of the Originator. Considering the borrower profile and nature of loan, Pool characteristics and portfolio performance, CARE Ratings has taken the average shortfall at 10.00% - 12.00% of the principal outstanding. The base case shortfalls were stressed along with other key factors such as the timing of shortfalls, the recovery assumptions and the time to recovery.

About the Company

Pahal Financial Services Private Limited (Pahal) is a non-deposit taking Non-Banking Finance Company (NBFC) registered with the Reserve Bank of India in 2011 and registered as a NBFC-MFI w. e. f. January 29, 2014.

Pahal commenced operations with acquisition of a portfolio of Rs.2.60 crore created under the Joint-liability group (JLG) model from Ahmedabad based Lok Vikas Nidhi (a division of Vikas Centre of Development) which had a track record of over 25 years. Thereafter, Pahal has expanded operations to several districts in Gujarat and nearby states. At present, Pahal offers microfinance loans to women through its network of 143 branches in 76 districts of Gujarat, Madhya Pradesh, Rajasthan, Maharashtra, Bihar, Chhatisgarh and Uttar Pradesh with and AUM of Rs.736.44 crore as on March 31, 2020. Currently Rated – 'BBB- Stable' (August 07, 2020)

Key Financial Indicators

Brief Financials (Rs. crore) (As per IND AS)	FY20 (A)	FY21 (A)	FY22 (P)
Total income	144	160	173
PAT	15.9	4	1
Debt / Equity Ratio	4.99	5.07	5.44
AUM	736	773	1,001
Gross NPA (%)	0.23	2.30	4.12
ROTA (%) (PAT/Average Adjusted Assets)	2.7	0.58	0.11

A-Audited; P: Provisional;

Status of non-cooperation with previous CRA: Not Applicable

Rating History for last three years: Please refer Annexure-2

Any Other Information: Nil

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Pass Through Certificates	-	-	-	-	27.61	Provisional CARE A- (SO)
Pass Through Certificates	-	-	-	-	3.07	Provisional CARE BBB (SO)

Annexure-2: Rating History of last three years:

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Pass Through Certificates	LT	27.61	Provisional CARE A-(SO)	-	-	-	-
2	Pass Through Certificates	LT	3.07	Provisional CARE BBB (SO)	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument /facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of Instrument	Complexity Level
1	Pass through Certificates	Highly Complex

Annexure-5: Bank Lender Details for this Company:

Not applicable

Note on complexity levels of the rated instrument: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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