

Northern Arc 2020 MFI Afshartous
Originator: Pahal Financial Services Private Limited (PF SPL)
April 05, 2021

Ratings

| Instrument | Amount (Rs. crore) | Rating ¹ | Rating Action |
|---------------|--|--|--------------------------|
| Series A1 PTC | 12.76 (Rs. Twelve crore and seventy six lakhs only) | CARE A (SO) [CARE A (SO) (Structured Obligation)] | Final Rating Assigned |
| Series A2 PTC | 0.75 (Seventy five lakhs only) | CARE BBB (SO) [CARE BBB (SO) (Structured Obligation)] | |

Instruments are rated on Ultimate Payment basis

Details of instruments/facilities in Annexure-1.

**The tenure may change due to prepayments / foreclosures in the pool.*

Detailed Rationale and Key Rating Drivers

CARE had assign rating of ‘Provisional CARE A (SO)’ [pronounced as ‘Provisional CARE Single A (Structured Obligation)’] to the Series A1 PTCs and ‘Provisional CARE BBB (SO)’ [pronounced as ‘Provisional CARE Triple B (Structured Obligation)’] to the Series A2 PTCs issued by Northern Arc 2020 MFI Afshartous backed by microfinance loan receivables originated by Pahal Financial Services Private Limited (PF SPL).

The rating is now confirmed and rating of ‘CARE A (SO)’ [pronounced as CARE Single A (Structured Obligation)] to Series A1 PTCs and ‘CARE BBB (SO)’ [pronounced as CARE Triple B (Structured Obligation)] to Series A2 PTCs issued by Northern Arc 2020 MFI Afshartous has been assigned. The rating assigned is finalized based on the structure provided to CARE by PF SPL, the originator. The rating has been confirmed after the copies of legal documents executed in accordance with the structure, a due diligence audit report by an external auditor and an independent legal opinion was furnished by the Originator (PF SPL), to the satisfaction of CARE.

The pool assigned to the SPV by PF SPL, consists of 6,158 micro finance loan contracts. Top three states accounts for 82.96% of the total principal of the pool with the top state, Gujarat accounting for 37.59%.

Rating Sensitivities

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

- Lower than expected delinquencies.
- Improvement and stability in collections
- Build-up of cash collateral (as % of Balance POS).

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

- Deterioration in pool collections
- Downward revision in rating of originator, creating the prospect of Commingling / Servicer Risk.
- Deterioration in the overall pool performance.

Detailed Rationale & Key Rating Drivers: NA

Key Rating Strengths: NA

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Weaknesses: NA

Liquidity Position:

The inherent liquidity in the structure is adequate. The interest payouts for both Series A1 and Series A2 PTCs are promised on monthly basis, while Series A principal is expected on a monthly basis. In case of any delinquency, the payouts are expected to be supported by Over Collateral, Excess Interest Spread and Cash Collateral (in the form of Fixed Deposit).

Applicable Criteria

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

Key Rating Assumptions: NA

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.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|-------------------------------------|-----------------|-----------------|
| Total income | 89.52 | 145.41 |
| PAT | 8.03 | 15.89 |
| Tangible Network | 56.71 | 112.25 |
| Gross NPA (%) | 0.09 | 0.23 |
| Net NPA (%) | 0.05 | 0.23 |
| ROTA (%) | 2.20 | 2.68 |

A-Audited

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

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

Annexure-1: Details of Instruments/Facilities

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|-------------------------------|-------------------------|--------------------|----------------------|--------------------------------------|--|
| Pass Through Certificates | - | - | - | 12.76 | CARE A (SO) |
| Pass Through Certificates | - | - | - | 0.75 | 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 (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Pass Through Certificates | LT | 12.76 | CARE A (SO) | 1)Provisional CARE A (SO) (29-Dec-20) | - | - | - |
| 2. | Pass Through Certificates | LT | 0.75 | CARE BBB (SO) | 1)Provisional CARE BBB (SO) (29-Dec-20) | - | - | - |

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 |

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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