

**Northern Arc 2020 MFI Afshartous**  
**(Originator: Pahal Financial Services Private Limited)**  
**February 10, 2022**

**Ratings**

Instrument#	Amount (Rs. Crore)	Balance Tenure	Credit Enhancement <sup>§</sup> (Rs. Crore)		Rating <sup>1</sup>	Rating Action
			Cash Collateral	Over Collateral		
Series A1 PTCs	1.05 (Rs. One crore five lakh only)	9	0.90	2.25	CARE AA (SO) [Double A (Structured Obligation)]	Revised from CARE A (SO) [Single A (Structured Obligation)]
Series A2 PTCs	0.75 (Rs. Seventy-five lakh only)				CARE A+ (SO) [Single A Plus (Structured Obligation)]	Revised from CARE BBB (SO) [Triple B (Structured Obligation)]

@ After December 2021 Payout

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

**Detailed Rationale and Key Rating Drivers**

CARE Ratings Ltd has revised the rating to 'CARE AA (SO)' [pronounced as Double A (Structured Obligation)] assigned to the Series A1 PTCs and 'CARE A+ (SO)' [pronounced as Single A Plus (Structured Obligation)] assigned to Series A2 PTCs issued by Northern Arc 2020 MFI Afshartous backed by Microfinance loans Receivables originated by Pahal Financial Services Private Limited (PFSP).

The rating is primarily based on the performance of the underlying loans over the past 12-months post securitisation. In addition, it draws comfort from the available credit enhancement facility and EIS support, transaction structure and defined payment mechanism, and sound legal structure of the transaction. Furthermore, CARE Ratings Ltd has factored in the overall performance of PFSP.

**Rating Sensitivities**

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

1. Build-up of Cash Collateral (CC) (as a % of Balance POS).
2. Lower-than-expected delinquencies.

*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.

The pool has amortised by 78% in 12 months post securitisation, with nil utilisation of CC. The pool has exhibited low delinquencies. As of December 31, 2021, OD (as a percentage of initial POS) is 2.3%. The CC available is sufficient to sustain the rating for the balance tenor.

<b>Pool Summary (as of December 2021 Payout)</b>	
Months Post Securitisation	12
Pool Amortisation	78.0%
30+ Delinquency (% of Initial POS)	5.6%
90+ Delinquency (% of Initial POS)	0.9%
Overdue Amount (% of Initial POS)	2.3%
CCE	96.0%
CC as percentage of Balance POS	27.3%
Cumulative Prepayments	9.0%

**Key Rating Strengths:**

1. CC as % of Balance POS is 27.3% and is unutilised along with OC.
2. As of December 31, 2021, the pool has amortised by >78%.

**Key Rating Weaknesses:**

1. Impact of the lockdowns that may arise due to a resurgence of the Covid-19 pandemic on the collections from the pool.

**Liquidity Position – Adequate:**

The inherent liquidity in the structure is adequate. The interest payouts for Series A1 PTCs are promised on monthly basis, while Series A1 PTC principal and Series A2 interest payment is promised to be paid by Final Legal Maturity Date. In case of any

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE publications

delinquencies in the pool, the payouts are expected to be supported by Cash Collateral, Over Collateral and Excess Interest Spread.

### Analytical approach & Applicable Criteria

[Policy on default recognition](#)

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

### Key Rating Assumptions

CARE Ratings Ltd 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 Ltd 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 Ltd has taken the average peak shortfall at 8.00% - 9.00% of 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. As on March 31, 2021, Pahal offers microfinance loans to women through its network of 181 branches in 88 districts of Gujarat, Madhya Pradesh, Rajasthan, Maharashtra, Bihar, Chhattisgarh and Uttar Pradesh with and AUM of Rs.773 crore. Over the years, Pahal has been able to attract investments from Dia Vikas Capital Private Limited and BOPA, which has further aided its growth.

### Key Financial Indicators

Brief Financials (Rs. crore) (As per IND AS)	FY20 (A)	FY21 (A)	H1FY22 (P)
Total Income (Rs. Cr)	143.88	159.76	NA
PAT (Rs. Cr)	15.90	4.29	NA
Interest Coverage (times)	1.21	1.05	NA
Total Assets	683.68	793.90	NA
NNPA (%)	0.23	2.17	NA
ROTA (%)	2.70	0.58	NA

A-Audited; P: Provisional; NA- Not Available

**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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Series A1 Pass Through Certificates	Dec'20	11.15% p.a.	Sep'22	1.05	CARE AA (SO)
Series A2 Pass Through Certificates		14.50% p.a.		0.75	CARE A+ (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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Series A1 Pass Through Certificates	LT	1.05	CARE AA (SO)	1) CARE AA (SO) (10-Feb-22) 1) CARE A (SO) (5-Apr-21)	1) Provisional CARE A (SO) (29-Dec-20)	-	-
2.	Series A2 Pass Through Certificates	LT	0.75	CARE A+ (SO)	1) CARE A+ (SO) (10-Feb-22) 2) CARE BBB (SO) (5-Apr-21)	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

**Annexure-5: Bank Lender Details for this Company:**

Not applicable

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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.

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