

**Northern Arc 2020 MFI Afshartous** (Revised)  
**Originator: Pahal Financial Services Private Limited**  
 December 29, 2020

**Ratings**

Instrument <sup>#</sup>	Amount (Rs. Crore)	Structure	Tenure* (months)	Rating	Credit Enhancement (Rs. Crore)	
					Over Collateral	Cash Collateral
Series A1 PTC	12.76 (Rs. Twelve Crore and Seventy six lakhs only)	Par	21	Provisional CARE A (SO) [Provisional CARE Single A (Structured Obligation)]	2.25	0.90
Series A2 PTC	0.75 (Seventy five lakhs only)			Provisional CARE BBB (SO) [Provisional CARE Triple B (Structured Obligation)]	1.50	

<sup>#</sup>Series A PTCs 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 has assigned a rating of 'Provisional CARE A (SO)' [pronounced as 'Provisional CARE Single A (Structured Obligation)'] and 'Provisional CARE BBB (SO)' [pronounced as 'Provisional CARE Triple B (Structured Obligation)'] to Series A1 and Series A2 PTCs respectively, issued by Northern Arc 2020 MFI Afshartous backed by microfinance loan receivables originated by Pahal Financial Services Private Limited (PFSPL).

The rating for PTCs is provisional based on the structure provided to CARE by PFSPL, the Originator & the Assignor. The rating will be 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 is furnished by the Assignor, to the satisfaction of CARE.

The rating is based on the credit quality of the underlying loans, the transaction structure and defined payment mechanism, support in the form of credit-cum-liquidity enhancement facility and the sound legal structure of the transaction.

**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 description of the key rating drivers**

The credit-cum-liquidity enhancement includes over collateral, credit collateral and subordination of excess interest spread (EIS) of Rs.1.40 Crore (9.35% of pool POS) in the structure. Credit collateral will be in the form of fixed deposit with a lien marked in favour of the trust as per CARE's criteria. Over collateral and Series A2 PTCs are fully subordinated to Series A1 PTCs while over collateral is subordinated to Series A2 PTCs.

The transaction is structured at par. Collections of a particular month will be utilized to make promised interest and expected principal payouts. Series A1 PTCs shall rank higher in preference and priority and have preferential rights of payments over Series A2 PTCs as per their respective scheduled Payout Dates.

The assigned pool consists of 6,158 contracts aggregating to a principal outstanding of Rs. 15.01 Cr given as microfinance loans as on cut-off date Nov 30, 2020. Top three states account for 82.96% of the total principal of the pool with the top state, Gujarat accounting for 37.59%. All the contracts are current on payment.

#### Key Rating Strengths:

1. Available Credit Enhancement comprising of Over Collateral of Rs. 1.5 Cr (10.00% of POS), Credit Collateral of Rs. 0.90 Cr (6.00% of POS), and EIS of Rs. 1.40 Cr (9.35% of POS).
2. There are no overdue contracts in the pool.

#### Key Rating Weaknesses:

1. Rising delinquencies in the overall company portfolio
2. Geographical concentration with top 3 states accounting for 82.96% of total pool POS with the top state (Gujarat) alone constituting 37.58%

#### Analytical approach & Applicable Criteria

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

#### 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).

#### Key Rating Assumptions

CARE has analyzed the transaction to assess whether the credit cum liquidity enhancement is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of the underlying pool, CARE has analyzed the performance of static pools provided by the originator and overall portfolio performance of the originator. Considering the borrower profile, nature of loan, pool characteristic and portfolio performance, CARE has assumed the shortfall between 7.50% – 9.50% 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. 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)

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

Status of non-cooperation with previous CRA: Not Applicable

**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	Provisional CARE A (SO)
Pass Through Certificates	-	-	-	0.75	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 (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	Provisional CARE A (SO)	1)Provisional CARE A (SO) (29-Dec-20)	-	-	-
2.	Pass Through Certificates	LT	0.75	Provisional 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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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.

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