Abarth 08 2025

Muthoot Microfin Limited

September 03, 2025

Instrument#	Amount (₹ crore)	Structure	Tenure* (months)	Rating[1]	Credit Enhancement$ (₹ crore)		Rating Action
					Over Collateral	Cash Collateral	
Series A1 PTCs	156.67	Par (TI-UP Conditional Turbo)	21	Provisional CARE AA+ (SO)	26.57	9.16	Assigned

Details of instruments/facilities in Annexure-1.

PTCs are rated based on the timely payment of interest and payment of principal by the final legal maturity.

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

$ Excess interest spread (EIS) shall flow back to the originator per the waterfall mechanism

Rating in the absence of pending steps/documents	No rating can be assigned

Rationale and key rating drivers

CARE Ratings Limited (CareEdge Ratings) has assigned a rating of 'Provisional CARE AA+ (SO)' (pronounced as 'Double A Plus [Structured Obligation]') to the Series A1 PTCs, proposed to be issued by Abarth 08 2025 backed by microfinance loans receivables originated by Muthoot Microfin Limited ("the Originator" or "MML").

The rating is based on credit quality of underlying loans, support in the form of credit enhancement (CE), credit underwriting and servicing capability of the originator, well-defined payment mechanism, and robust legal structure of the transaction.

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

a. Assignment agreement
b. Trust deed
c. Power of attorney
d. A legal opinion from an independent legal counsel
e. Due diligence audit report
f. Any other documents executed for the transaction.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Delinquencies (90+ DPD as percentage of initial principal outstanding [POS]) of less than 2% and the sustained high collection efficiency (cumulative collection efficiency of over 98%).
- Build-up of cash collateral (CC) of over 2x the initial proposed (CC; as a percentage of the balance principal outstanding [POS]).

Negative factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Delinquencies (90+ DPD as percentage of initial POS) of over 8% and the sustained lower collection efficiency (cumulative collection efficiency of less than 90%).
- Deterioration in the credit profile of the originator.
- Utilisation of CC.
- Non-adherence to key transaction terms envisaged at the time of the rating.

Analytical approach

The rating is based on inter alia, analysis of the underlying pool of receivables, expected pool performance, performance of originator's portfolio and transaction structure including the proposed CE.

[1]Complete definitions of ratings assigned are available at www.careratings.com and in other CARE Ratings Limited's publications.

Detailed description of key rating drivers

The transaction is structured at par, and Series A1 PTCs are rated for timely payment of interest with repayment of principal on or before the final legal maturity. The transaction has a conditional turbo amortisation feature. Excess interest spread (EIS) shall be utilised per waterfall mechanism.

The assigned pool consists of ~31,250 microfinance loan contracts, aggregating to a principal outstanding of ₹183.24 crore as on the cut-off date. The top three states account for ~69% of the pool. All the contracts are current on payment. The pool has weighted an average seasoning of ~5 months with an amortisation of ~17%. The pool is granular with scheduled of cash flows from underlying loans. The assignment of receivables to the special purpose vehicle (SPV) lends strength to these cash flows and the rating factors the terms of servicing agreement as detailed hereinafter.

CE will comprise CC of 5.00%, subordinated over collateral (OC) of 14.50%, and subordination of EIS of ~15% of the pool POS in the structure. CC will be in the form of fixed deposits (FDs) with a lien marked in the trust's favour per CareEdge Ratings' criteria. Support of OC and EIS, is subject to realisation. EIS is also subject to compression considering prepayments in the pool. Cash flow from the underlying pool, and external CE, will be used to payout to the PTC investors.

Key strengths

- Robustness of transaction structure and well-defined payment mechanism.
- CE comprising CC, subordinated OC and EIS.
- No overdue contracts as on the pool cut-off date; all contracts are ever current as on the pool cut-off date.
- Underwriting policies and collection capabilities of MMFL.
- Moderate-weighted average seasoning (based on EMIs paid) of ~5 months with amortisation of ~17%.

Key weakness

- Moderate concentration with the top three states accounting for ~69% of the pool.
- Weak borrower profile as this segment is susceptible to socio-political disruptions and other external shocks.

Liquidity: Strong

Inherent liquidity in the structure is strong. Interest payouts for Series A1 PTCs are promised monthly, while the principal of Series A1 PTCs is promised to be paid by final legal maturity. In case of delinquency, payouts are expected to be supported by CE consisting of CC, principal subordination in the form of OC and EIS.

Key rating assumptions and adequacy of credit enhancement:

CareEdge Ratings has analysed the transaction to assess whether the CE is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of the underlying pool, CareEdge Ratings has analysed performance of static pools provided by the originator and overall portfolio performance of the originator. Considering borrower profile, nature of loan, pool characteristics, and portfolio performance, CareEdge Ratings has taken the average shortfall at 8.00- 10.00% of the POS. Base case shortfalls were stressed with other key factors, such as timing of shortfalls, recovery assumptions, and time to recovery. Pool cash flow has been further adjusted for prepayments of underlying loans, assuming monthly prepayments in the range of 0.50- 1.00% CareEdge Ratings has stipulated CE which is commensurate with credit rating of PTCs.

Key risks, concerns and mitigants:

The securitisation transaction involves several risks, including credit risk from borrower defaults, commingling risk due to time lags in fund deposits, prepayment risk from early principal repayments, servicer bankruptcy risk, legal risk regarding the validity of receivable transfers, and counterparty risk involving transaction parties. These risks are factored while assigning rating, wherever needed, and partially mitigated through credit enhancements, separate record-keeping, credit rating/profile of the originator, transaction structuring, true sale of receivables and legal opinion from independent legal counsel. The transaction structure also has provision to change counterparties including trustee, and banker among others.

Applicable criteria

Policy on Default Recognition
Assignment of Provisional rating
CARE Ratings' methodology for asset/mortgage-backed securitisation

Validity of Provisional rating

Provisional rating shall be converted to a final rating after receipt of transaction documents duly executed/completion of mentioned steps in 90 days from the instrument's date of issuance. An extension of 90 days may be granted on a case-to-case basis aligning with CareEdge Ratings' Policy on Assignment of Provisional Ratings.

Risks associated with Provisional credit rating

When a rating is assigned pending 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 critical documents to the satisfaction of CareEdge Ratings, the final rating is assigned. In the absence of documents/completion of steps or where such documents deviate significantly from those considered, provisional rating will be reviewed aligning with the Policy on Assignment of Provisional Ratings.

About the originator / servicer and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Securitisation

MML is a subsidiary of MFL and a part of the Muthoot Pappachan Group (MPG). It started operations as a small business unit in MFL in 2010 in Kerala and Tamil Nadu. In 2012, MFL acquired Pancharatna Securities Limited, an NBFC-based in Mumbai and subsequently changed its name to MML. MML received an NBFC-MFI license in March 2015; subsequently, it commenced microfinance lending. MML is engaged in microfinance business for over 12 years and is an active player in the market.

MML is a subsidiary of MFL. MFL and other individual promoters hold ~55.47% stake in the company as on June 20, 2025. Greater Pacific Capital (GPC, an impact investment institution) and Creation Investments India LLC (CII, a private equity and credit investments management firm) hold 15.13% and 7.63% stake in the company, respectively.

MML provides microfinance loans to women. It caters to the rural population, semi-urban and urban areas and mainly lends for income-generating activities such as agriculture, animal husbandry and micro-manufacturing among others. As on June 30, 2025, MML has an outreach to 357 districts in 18 states with 1,562 branches across India concentrated in Kerala and Tamil Nadu. As of March 2025, the initial size of MML's active securitised pool including bilateral assignments amounts to ₹ 4,196 crore.

Key financial indicators - MML

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	FY25 (A)
Total operating income	1,446	2,286	2,564
PAT	164	450	(223)
Interest coverage (times)	1.39	1.67	0.69
Total assets	8,529	11,590	10,857
Net NPA (%)	0.60	0.35	1.34
ROTA (%)	1.92	4.19	(2.05)

A: Audited; Note: these are latest financial results available.

Key terms of servicer contract:

The servicing agreement shall cover role of the originator as the collection and payment agent (CPA) for the SPV in managing collections from underlying borrowers, without informing them of the assignment. The servicer (originator) follows its standard procedures for collections, including recovery actions, and ensures timely transfers of funds to the SPV under an M+1 payment structure. The trustee monitors the sufficiency of funds for investor payouts one day prior to payout date and utilises cash collateral in case of shortfall. The servicer must also submit detailed reports on billing, collections (including prepayment), overdue amounts with aging thereof, cash flow schedules to the trustee and such other information as may be required by the trustee. The terms of the agreement shall have provisions for the appointment of an alternate servicer in case of servicer event of default.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instruments/facilities: Annexure-3

Complexity level of instruments: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Pass Through Certificates		-	-	-	156.67	Provisional CARE AA+ (SO)

Annexure-2: Rating history for 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 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Pass Through Certificates	LT	156.67	Provisional CARE AA+ (SO)				

LT- Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of Instrument	Complexity Level
1.	Pass Through Certificates	Highly complex

Annexure-5: Lender details

Not applicable

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

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About us:

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