

**Northern Arc 2020 MFI Kruger**  
**Originator: S.M.I.L.E. Microfinance Limited**

July 03, 2020

**Ratings**

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Series A1 PTC <sup>#</sup>	34.99 (Rs. Thirty four crore and ninety nine lakh only)	CARE A (SO) [CARE Single A (Structured Obligation)]	Final Rating Assigned
Series A2 PTC <sup>#</sup>	1.65 (Rs. One crore and sixty five lakh only)	CARE BBB+ (SO) [CARE Triple B plus (Structured Obligation)]	

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

CARE had assigned a rating of 'Provisional CARE A (SO)' [pronounced as 'Provisional CARE A (Structured Obligation)'] to the Series A1 PTCs and 'Provisional CARE BBB+ (SO)' [pronounced as 'Provisional CARE Triple B Plus (Structured Obligation)'] to the Series A2 PTCs issued by Northern Arc 2020 MFI Kruger backed by microfinance loan receivables originated by S.M.I.L.E. Microfinance Limited (SMFL).

The rating is now confirmed and rating of 'CARE A (SO)' [pronounced as CARE single A (Structured Obligation)] to Series A1 PTCs and rating of 'CARE BBB+ (SO)' [pronounced as CARE triple B plus (Structured Obligation)] to Series A2 PTCs issued by Northern Arc 2020 MFI Kruger has been assigned. The rating assigned is finalized based on the structure provided to CARE by SMFL, 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 is furnished by the Originator (SMFL), to the satisfaction of CARE.

The pool assigned to the SPV by SMFL, consisted of 27,409 microfinance loan contracts aggregating to principal outstanding of Rs.41.17 crores. The weighted average net seasoning of the pool was good at 9.43 fortnights as on the pool cut-off date (14th February 2020). The pool was concentrated in terms of geographical exposure with all the contracts consisting from Tamil Nadu. The pool was amortized by 36.89%. All the contracts were current on payment.

**Rating Sensitivities:**

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

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

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

1. Impact of COVID-19 pandemic and Moratorium period on Pool Collections.
2. Downward revision in rating of originator, creating the prospect of Commingling / Servicer Risk.
3. Deterioration in the overall pool performance.

**Detailed description of the key rating drivers: NA**

**Key Rating Strengths: NA**

**Key Rating Weaknesses: NA**

**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 Series A1 PTCs are promised on monthly basis, while the Series A1 principal is expected on a monthly basis. On full repayment of Series A1 PTCs, interest payouts for Series A2 PTCs are promised on monthly basis; and the Series A2 PTCs principal is expected on a monthly basis. The principal for both Series A1 and Series A2 PTCs is promised by the last payout date. 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).

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

### About the Company

S.M.I.L.E. Microfinance Limited (SMFL) is a Tamil Nadu based Non-Deposit taking Non-Banking Finance Company (NBFC-ND) started as a private limited company in 2004 and converted to public limited company in November 2005. The company was reclassified as NBFC-MFI in May 2015. Mr. Murali Srinivas Polaramasetty is the Chairman and Managing Director of the company. As on March 31, 2018, DWM Investments (Cyprus) Limited holds 66.64% stake, promoters hold 18.57% stake and the remaining is held by Women Members (13.32%) and Associates (1.47%). As on June 30, 2019, the company is operating with 110 branches in 29 districts with presence in 2 states and 1 union territory. SMFL is engaged in the activity of extending loans to women for income generation purposes both in rural and urban areas.

During FY18, SMFL's loan portfolio has grown by 53% from Rs.308 crore as on March 31, 2017 to Rs.471 crore as on March 31, 2018 backed by increase in disbursements from Rs.564 crore in FY17 to Rs.706 crore in FY18. AUM has increased from Rs.474 crore as on March 31, 2018 to Rs.515 crore as on March 31, 2019 registering a growth of 9%. As on Dec'19, the AUM of SMFL stood at Rs. 493.14 crore.

Currently, SMFL has outstanding rating of 'CARE BBB; Stable' on long term instruments.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Interest Income	94.1	104.83
PAT	16.8	25.98
AUM	474	515
Tangible Net-Worth	107	133
Gross NPA (%)	0.10	0.11
ROTA (%)	3.48	4.61

### 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
Series A1 Pass Through Certificates	Feb'20	10.50% p.a.	Dec'21	34.99	CARE A (SO)
Series A2 Pass Through Certificates		15.00% p.a.	Dec'21	1.65	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.	Series A1 Pass Through Certificates	LT	34.99	CARE A (SO)	-	1)Provisional CARE A (SO) (03-Mar-20)	-	-
2.	Series A2 Pass Through Certificates	LT	1.65	CARE BBB+ (SO)	-	1)Provisional CARE BBB+ (SO) (03-Mar-20)	-	-

**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:

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