



Invoice ABS debuts First trade receivables securitisation for India

Northern Arc Capital and fintech platform CredAble have closed a trade finance securitisation backed by invoice receivables. The transaction is the first rated and listed invoice receivables-backed ABS from India.

Kshama Fernandes, md and ceo of Northern Arc Capital, says: “Banks and non-banking financial companies (NBFCs) have traditionally been present in this space and have been discounting these invoices directly. However, this exposes them to idiosyncratic anchor/vendor risks, since there is a single underlying exposure.”

Under the R150m deal, which was arranged by Northern Arc, 10 vendors on the CredAble platform discounted invoices that were raised to several large anchor buyers by assigning invoice receivables to the securitisation trust. The transaction has a ramp-up feature, whereby cashflows can be reinvested to purchase a fresh set of invoices that meet predefined eligibility criteria.

Rated A1+ by Fitch and listed on the BSE, the transaction has a number of unique features. “Other capital market players - including foreign investors, mutual funds, alternate investment funds and high net-worth individuals - have not been able to access this robust segment, due to lack of a capital market instrument. The product, by providing investors a rated and listed instrument backed by a pool of invoices, provides a solution to both the problem statements. Furthermore, from a structural perspective, this was also India’s first multi-originator ramp-up based structure,” Fernandes adds.

The transaction provides various advantages for sellers and investors. Fernandes says: “With the investor base getting expanded, price discovery for the asset class will improve, making it more efficient and cost-effective for sellers to avail financing. They also get a continuous line of funding by virtue of the replenishment-based nature of the transaction. For the investors, the risks are mitigated due to diversification offered by pooling multiple vendors and anchors.”

The role of a structurer and portfolio assessor like Northern Arc also ensures continuous monitoring of the health of the transaction for the investor. “The credit triggers in the transaction enable the structure to be wound down in case of serious credit issues,” adds Fernandes.

Closing of this transaction was not without challenges, however. Checks were required in order for it to be rated and listed.

“Over the past 20 months, the product went through rigorous checks from legal counsels, rating agencies, trustees, exchange and auditors. However, with the learnings in place, going forward the processes will become streamlined and we look forward to scaling this product. Already we are seeing lot of interest coming from domestic and international investors,” says Fernandes.

In the financial year 2019, the Indian securitisation market reached almost US\$30bn, an all-time high. Fernandes notes: “The growth is being driven by non-traditional asset classes like invoice receivables, wholesale loans, lease receivable, personal loans, gold loans etc. Furthermore, innovative products like replenishment-based structures, multi-originator structure variants are seeing good traction with originators and investors.”

Northern Arc has previously been involved in structuring India’s debut covered bond, pooled loan issuance, CLO transaction and replenishment-based structure post the implementation of 2012’s RBI securitisation guidelines.

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