

January 28, 2022

Spandana Sphoorty Financial Limited: Rating upgraded/reaffirmed for PTCs issued under microloan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount after Dec-21 Payout (Rs. crore)	Rating Action
Newgen Abhilasha November 2020	PTC Series A1	71.92	NA	8.33	[ICRA]A+(SO); Upgraded from [ICRA]A(SO)
Newgen Abhilasha II December 2020	PTC Series A1	54.80	NA	4.88	[ICRA]A+(SO); Upgraded from [ICRA]A(SO)
CREDAVENUE GRETA 12 2020	PTC Series A1	49.95	NA	7.63	[ICRA]A+(SO); Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

ICRA has upgraded/reaffirmed the rating for the pass-through certificates (PTCs) issued under three microloan securitisation transactions backed by pools originated by Spandana Sphoorty Financial Limited (Spandana), as tabulated above. The rating upgrade/reaffirmation factors in the high amortisation in the transactions, which has led to the build-up of the credit enhancement cover over the future PTC payouts. The breakeven collection efficiency is also low compared to the actual collection levels observed in the pools. While ICRA notes the recent changes at Spandana's senior management level, the same is unlikely to affect the rating of the aforesaid PTCs given the high build-up of credit enhancement in the transactions.

A summary of the performance of the pools till the November 2021 collection month (December 2021 payout) has been tabulated below.

Pool performance summary

Parameter	Newgen Abhilasha November 2020	Newgen Abhilasha II December 2020	CREDAVENUE GRETA 12 2020
Months post securitisation	13	12	12
Pool amortisation	76.16%	77.40%	72.04%
PTC amortisation	88.42%	91.09%	84.72%
Cumulative collection efficiency ¹	95.19%	93.93%	94.01%
Loss-cum-0+ dpd ² (% of initial pool)	5.62%	5.47%	10.59%
Loss-cum-90+ dpd ³ (% of initial pool)	1.29%	1.33%	0.30%
Cumulative cash collateral utilisation	0.00%	0.00%	0.00%
Breakeven collection efficiency (BECE) ⁴	21.04%	12.19%	29.02%
Cumulative prepayment rate (% of initial pool)	16.58%	17.77%	14.09%
Cash collateral (CC; % of balance pool)	20.97%	22.12%	17.88%
Principal subordination (% of balance pool)	57.26%	65.49%	52.19%

¹ (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

² Inclusive of Unbilled and Overdue Principal portion of delinquent contracts, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of Delinquent contract overdue by more than 90 days, as a % of Initial Pool Principal

⁴ (Balance Cash flows payable to investor – Cash collateral available)/ Balance Pool Cash flows

Parameter	Newgen Abhilasha November 2020	Newgen Abhilasha II December 2020	CREDAVENUE GRETA 12 2020
Excess interest spread (% of balance pool) ⁵	7.80%	6.46%	5.65%

Key rating drivers

Credit strengths

- High amortisation of the pools, leading to build-up of credit enhancement
- Low delinquency observed in the pools in harder buckets

Credit challenges

- Performance of pools would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, the performance of the pools would be exposed to political and communal risks
- Performance of the pools would be exposed to any fresh disruptions caused by the Covid-19 pandemic

Description of key rating drivers highlighted above

The performance of the pools has been strong with a cumulative collection efficiency of more than 93% after the December 2021 payout. There has been no instance of CC utilisation owing to healthy collections in the pools as well as the entire principal on the PTCs being promised on the pool maturity date. The delinquencies in the harder bucket were low prior to the second wave of the pandemic with the loss-cum-90+ days past due (dpd) below 1% till the April 2021 payout. Although there has been some increase in delinquencies post the second wave of the pandemic, the loss-cum-90+ dpd is below 1.5% for the pools. Also, while the monthly collection efficiency in the May 2021 payout month dipped to around 75% for all pools, it bounced back to over 85% in the June 2021 payout month and has shown an improving trend since.

The pools are substantially amortised by over 70%, which has resulted in the build-up of the credit enhancement cover over the balance pool. The breakeven collection efficiency (BECE) for the pools has fallen below 30%, which is much lower than the observed monthly collections. Overall, the credit enhancement available for meeting the balance payouts to the investor is sufficient to upgrade/reaffirm the rating for the PTCs. ICRA will continue to monitor the performance of the transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations. Also, the performance of the pools would remain exposed to any fresh disruptions caused by the pandemic.

Performance of past rated pools: ICRA has live ratings on six PTC transactions of Spandana. The live pools have performed well with a cumulative collection efficiency of more than 90% and loss-cum-90+ dpd of sub-1.5% with nil CC utilisation as of the December 2021 payouts.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and the rated pools, as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

⁵ (Pool Cash flows – Cash flows to PTC A1 – Originator's residual share)/ Pool Principal outstanding

After making the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pools are as given in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Newgen Abhilasha November 2020	1.50%-2.00%	6% - 9% p.a.
2	Newgen Abhilasha II December 2020	1.75%-2.25%	6% - 9% p.a.
3	CREDAVENUE GRETA 12 2020	3.50%-4.00%	6% - 9% p.a.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the entire principal amount is promised on the scheduled maturity date of the transactions. This imparts liquidity to the transactions in the interim period. The cash flows from the pools and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors. The CC available in the transactions, between 18% and 22% of the balance pool principal amount, would cover at least the promised interest payouts due to the PTC investors for the balance tenure even in the unlikely scenario of no collections in the pools.

Rating sensitivities

Positive/Negative factors – Given the short balance tenure of the PTCs, the rating is unlikely to be revised.

Analytical approach

The rating action is based on the performance of the pools till November 2021 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Spandana Sphoorty Financial Limited (Spandana) was incorporated in 2003 as a non-banking financial company (NBFC) and it took over the microfinance operations of Spandana, a non-governmental organisation started by Ms. Padmaja Reddy in 1998. The company was classified as a non-banking financial company – microfinance institution (NBFC-MFI) in 2015. Following the microfinance crisis in Andhra Pradesh (AP), Spandana entered into a master restructuring agreement (MRA) as part of corporate debt restructuring (CDR) with its lenders in September 2011. It exited the CDR in April 2017 after a fresh equity investment led by Kedaara Capital Investment Managers Limited (Kedaara Capital) and fresh funding from three banks. The company completed its initial public offering (IPO) in August 2019.

Key financial indicators (audited)

Spandana Sphoorty Financial Limited (standalone)	FY2020	FY2021	3M FY2022*
Total income (Rs. crore)	1,217.0	1,365.2	389.4
Profit after tax (Rs. crore)	336.7	129.0	47.5
Total managed assets (Rs. crore)	8,006.0	9,635.3	9,452.6
Gross stage 3 (%)	0.4%	5.8%	4.7%
Net stage 3 (%)	0.1%	3.2%	2.4%

Source: Company & ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
						Jan-28-2022	Jan-12-2021		
1	Newgen Abhilasha November 2020	PTC Series A1	71.92	8.33	[ICRA]A+(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-

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						Jan-28-2022	Jan-28-2021		
2	Newgen Abhilasha II December 2020	PTC Series A1	54.80	4.88	[ICRA]A+(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-

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Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Newgen Abhilasha November 2020	PTC Series A1	Moderately Complex
Newgen Abhilasha II December 2020	PTC Series A1	Moderately Complex
CREDAVENUE GRETA 12 2020	PTC Series A1	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance	Coupon Rate (p.a.p.m.)	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Newgen Abhilasha November 2020	PTC Series A1	November 2020	9.57%	August 2022	8.33	[ICRA]A+(SO)
Newgen Abhilasha II December 2020	PTC Series A1	December 2020	9.57%	October 2022	4.88	[ICRA]A+(SO)
CREDAVENUE GRETA 12 2020	PTC Series A1	December 2020	9.50%	October 2022	7.63	[ICRA]A+(SO)

* Scheduled maturity at transaction initiation; may change on account of prepayment

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

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