

November 30, 2022

Satin Creditcare Network Ltd.: Rating confirmed as final for PTCs issued under a microfinance loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Oceana 01 2022	PTC Series A1	27.95	[ICRA]AA-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In September 2022, ICRA had assigned a Provisional [ICRA]AA-(SO) rating to Pass-Through Certificates (PTCs) issued by Oceana 01 2022. The PTCs are backed by a pool of Rs. 31.77-crore (principal amount; receivables of Rs. 37.98 crore) of microfinance loan receivables originated by Satin Creditcare Network Ltd. (Satin; rated [ICRA]A-(Negative)/[ICRA]A1). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool's performance after the November 2022 payout is shown in the table below.

Parameter	Oceana 01 2022
Months post securitisation	3
Pool amortisation	14.07%
PTC Series A1 amortisation	19.29%
Cumulative collection efficiency (including advance collections)	99.59%
Cumulative prepayment rate	3.90%
Loss-cum-0+ days past due (dpd)	0.85%
Loss-cum-30+ dpd	0.23%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), over-collateralisation and cash collateral (CC)
- Pool has no overdue contracts as on the cut-off date
- Moderate seasoning (average at ~5 months) and amortisation (~21% pre-securitisation) profile as on the cut-off date
- One of the largest players in microfinance industry with established track record

Credit challenges

- High geographical concentration with top 3 states contributing around 69% of the pool principal as on the cut-off date
- Exposed to inherent credit risk in the asset class, given the unsecured nature of the product and the marginal borrower profile; performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower.

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables are assigned at par to the PTC investors. During the tenure of PTC Series A1, the collections from the pool, after making the promised interest payouts to PTC Series A1, will be used to make the expected principal payouts to PTC Series A1. The principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. The residual cash flows from the pool would be used for the payment of PTC Series A1 principal; no residual cash flow will be paid to the residual beneficiary until the payment of PTC Series A1 in full.

The first line of support for PTC Series A1 in the transaction is in the form of a subordination/over-collateralisation of 12.0% of the initial pool principal. Further credit support is available in the form of an EIS of 13.6% of the initial pool principal. A CC of 10.0% of the initial pool principal (Rs. 3.18 crore), provided by Satin, acts as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC (in case the over-collateral and EIS are insufficient) to meet the shortfall.

There were no overdues in the pool as on the cut-off date. The pool had moderate pre-securitisation amortisation at 21% as on the cut-off date. The pool had high geographical concentration with the top 3 states (Bihar, Uttar Pradesh and Maharashtra) contributing 69% to the initial pool principal amount. At the district level, the top 5 districts accounted for 23% of the initial pool principal amount. The company had witnessed an increase in the delinquencies at the portfolio level following the onset of the Covid-19 pandemic, which has now started to moderate. The pool's performance would remain exposed to the inherent credit risk in the asset class. Furthermore, macroeconomic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower could have a bearing on the performance, given the marginal borrower profile.

Past rated pools: ICRA has rated 12 securitisation transactions backed by micro loan receivables for Satin. The live pools which have completed at least two payouts have reported satisfactory collections with nil CC utilisation up to the October 2022 payouts.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the 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 performance of the originator's portfolio as well as the 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.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.5-5.5% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 2.4-9.0% (with a mean of 6.0%) per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/tandalone	Not Applicable

About the company

Satin Creditcare Network Ltd. (Satin), which was set up in 1990 to provide individual business loans to urban shopkeepers, started providing group lending services to the rural poor in 2008. It was registered with the Reserve Bank of India (RBI) as a deposit-taking non-banking financial company (NBFC) under the name, Satin Leasing and Finance Company Limited. Following its conversion into a public limited company in 1994, the company was renamed Satin Creditcare Network Ltd. in 2000. It stopped accepting public deposits from November 2004 and the RBI changed its classification to Category B (nondeposit taking) from Category A (deposit taking) in February 2009 and converted it into an NBFC-microfinance institution (NBFC-MFI) in November 2013. The company's microfinance operations are based on the Grameen Bank joint liability group (JLG) model and were spread across 1,039 branches in the country, as on September 30, 2022, on a standalone basis and 1,237 branches for the Group as a whole.

Satin is listed on the National Stock Exchange of India Limited (NSE), Bombay Stock Exchange (BSE) and Calcutta Stock Exchange. As on September 30, 2022, the company's consolidated managed portfolio stood at Rs. 7,575 crore. It reported a net loss of Rs. 153 crore in H1 FY2023 against a net profit of Rs. 21 crore in FY2022 at the consolidated level.

Key financial indicators (audited)

	FY2021	FY2022	H1 FY2023*
Total income	1,374	1,381	706
Profit after tax	(14)	21	(153)
Gross loan portfolio	8,379	7,617	7,575
Gross stage 3	8.4%	8.0%	3.9%
Net stage 3	4.7%	2.4%	1.9%

Source: Company, ICRA Research; *Limited review numbers and ratios might change, subject to notes to accounts; All ratios and values are as per ICRA's calculations; Net stage 3 (%) = Net stage 3 / Gross loan book; Gross and net stage 3 ratios are on standalone basis
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
				Nov 30, 2022	Sep 08, 2022	-	-	-	
1	Oceana 01 2022	PTC Series A1	27.95	27.95	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Oceana 01 2022	PTC Series A1	August 2022	10.50%	May 2024	27.95	[ICRA]AA-(SO)

* Scheduled SN maturity date at transaction initiation; may change on account of prepayments

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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Branches



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