

December 05, 2022

Spandana Sphoorty Financial Limited: 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
Galaxy 10 2022	PTC Series A1	46.49	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In November 2022, ICRA had assigned a Provisional [ICRA]AA(SO) rating to pass through certificates (PTC) Series A1 issued by Galaxy 10 2022. The pass-through certificates (PTCs) are backed by a pool of Rs. 62.75 crore microfinance loan receivables (underlying pool principal of Rs. 52.83 crore) of microfinance loan receivables originated by Spandana Sphoorty Financial Limited (SSFL) (rated [ICRA]A-(Stable)). 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	Galaxy 10 2022
Months post securitisation	1
Pool amortisation	4.49%
PTC Series A1 amortisation	5.18%
Cumulative Prepayment rate	0.11%
Cumulative Collection Efficiency	98.10%
Loss-cum-0+ days past due (dpd)	0.42%
Loss-cum-30+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, over-collateralisation/subordination and CC
- No overdue contracts in the pool as on the cut-off date

Credit challenges

- Performance of pool would also remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile; further, pool performance would also be exposed to political and communal risks
- Exposure to interest rate risk given that the yield on PTC Series A1 is floating and the pool yield is fixed
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation (OC, i.e. subordination) of 12.00% of the pool principal. Further credit support is available in the form of an EIS of 12.33% and a CC of 10.00% of the initial pool principal (i.e. Rs. 5.28 crore) provided by SSFL.

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A1 at the predetermined interest rate on the principal outstanding. The principal repayment to PTC Series A1 is promised on the last payout date. During the tenure of PTC Series A1, the collections from the pool, after making the promised interest payouts, will be used to make the expected principal payouts to PTC Series A1. This 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 EIS, if any, shall flow back to the originator on every payout date after making all the payouts to PTC Series A1 as per the Waterfall Mechanism. Also, in the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall. The PTC yield in current transaction is not fixed but linked to investor MCLR while underlying pool has fixed rate loans thereby exposing the transaction to interest rate risk.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that are moderately seasoned with a weighted average seasoning of ~5 months with pre-securitisation amortisation of ~16%. The geographical concentration of the loan contracts in the current pool is moderate with the top 3 states constituting ~38% of the pool principal. The performance of the pool would be exposed to political and communal risks and natural calamities that may impact the income-generating capability of the borrower. Also, performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any.

Performance of past rated pools: In the past, ICRA has rated 32 microfinance loan receivable pools originated by SSFL out of which three are live. There has been no CC utilisation till date for the live pools and the loss cum 30+ dpd have been below 0.50% as on November 2022 payout.

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 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 in the range of 3.0-9.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised monthly to PTC Series A1 while the entire 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. The available CC would meet the promised interest payouts for fourteen months even in the unlikely scenario of no collections in the pool.

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 of contracts (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/standalone	Not Applicable

About the originator

Spandana Sphoorty Financial Limited (SSFL) 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), the company entered into a master restructuring agreement (MRA) as a part of the 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. SSFL completed its initial public offering (IPO) in August 2019. Following Ms. Padmaja Reddy's exit from her executive position in the company in November 2022, a new leadership team – led by Mr. Shalabh Saxena (CEO & MD) - has taken over the management of the company.

Key financial indicators (audited)

Spandana Sphoorty Financial Limited (standalone)	FY2020	FY2021	FY2022	Q1FY2023
Total Income	1,430.9	1,431.7	1,350.8	238.3
Profit after Tax	336.7	129.0	46.6	(222.7)
Total Managed Assets	8,006.0	9,635.3	7,353.6	6,503.4
GNPA (%)	0.4%	5.8%	14.2%	6.5%
Net NPA (%)	0.1%	3.2%	6.2%	3.3%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Current Rating (FY2023)					Chronology of Rating History for the past 3 years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					December 05, 2022	November 04, 2022			
1	Galaxy 10 2022	PTC Series A1	46.49	46.49	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	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
Galaxy 10 2022	PTC Series A1	October 2022	9.80%**	June 2024	46.49	[ICRA]AA(SO)

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

** 1-year MCLR of investor +190 bps

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Diptajyoti Banik

+91 22 6114 3412

diptajyoti.banik@icraindia.com

Himanshi Doshi

+91 22 6114 3410

himanshi.doshi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.