

January 05, 2023

## Satin Creditcare Network Ltd.: Provisional [ICRA]AA-(SO) assigned to Series A1 PTC backed by microfinance loan receivables issued by Lotus 2022

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Lotus 2022	Series A1 PTC	64.19	Provisional [ICRA]AA-(SO); Assigned

\*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
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### Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Satin Creditcare Network Ltd. (Satin; rated [ICRA]A- (Negative)/[ICRA]A1). The PTCs are backed by a pool of Rs. 71.32-crore (principal amount; receivables of Rs. 86.44 crore) microfinance loan receivables.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts. Credit enhancement is available in the form of (i) a cash collateral (CC) of 12.50% of the initial pool principal to be provided by the originator, (ii) principal subordination of 10.00% (through over-collateralisation) and (iii) excess interest spread (EIS) of 13.25% of the initial pool principal in the structure, as well as the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure, due diligence audit of the pool, review by ICRA of the documentation pertaining to the transaction, and the furnishing of a legal opinion on the transaction to ICRA by Satin.

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of EIS, over-collateralisation and CC
- Moderate seasoning (average of ~5 months) and amortisation (~16% 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 over 60% to the initial pool principal
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; performance of the pool could remain exposed to macro-economic shocks/business disruptions
- Performance of the pool would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pool's performance would be exposed to political and communal risks

### Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The interest on the PTC securities, at predetermined rates on the outstanding principal, is promised on a monthly basis while the principal is promised on the final scheduled maturity date (September 15, 2024). On each payout date, the promised cash flow schedule for Series A1 PTC, on a monthly basis, will comprise only the interest (at the predetermined yield) payment; the principal payment would be promised on the final payout date. During the tenure of Series A1 PTC, the collections from the pool, after

making the promised interest payouts to Series A1 PTC, will be used to make the expected principal payouts to Series A1 PTC (not promised). Any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payout. The surplus EIS available after meeting the promised and expected payouts to the PTCs will be passed on to the originator every month.

The first line of support for Series A1 PTC in the transaction is in the form of over-collateralisation of 10.00% of the initial pool principal. Further credit support is available in the form of an EIS of 13.25% and a CC of 12.50% of the initial pool principal (Rs. 8.92 crore) to be provided by Satin. 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.

There are no overdues in the pool as on the cut-off date. The pool has moderate pre-securitisation amortisation at around 16% as on the cut-off date. Geographical concentration is high with the top 3 states (Uttar Pradesh, Rajasthan and Jharkhand) contributing around 60% to the initial pool principal amount. At the district level, the top 5 districts account for 4.4% of the initial pool principal amount. The company has witnessed an increase in the delinquencies at the portfolio level following the onset of the Covid-19 pandemic. Given the unsecured nature of the asset class, the performance of the pool could remain exposed to macro-economic shocks/business disruptions. The performance of the pool would also be exposed to political and communal risks as well as natural calamities that may impact the income-generating capability of the borrower.

### 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 4.75-5.75% 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 analysis of the performance of Satin’s portfolio till September 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant’s know your customer (KYC) certificate
6. Any other documents executed for the transaction

## Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

## Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA’s Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## 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 Reserve Bank of India (RBI) changed its classification to Category B (non-deposit taking) from Category A (deposit taking) in February 2009 and converted it into a non-banking financial company-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
				Jan 05, 2023	-	-	-
1 Lotus 2022	Series A1 PTC	64.19	64.19	Provisional [ICRA]AA-(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	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
Lotus 2022	Series A1 PTC	December 2022	10.50%	September 2024	64.19	Provisional [ICRA]AA-(SO)

\* Scheduled PTC 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](http://www.icra.in)

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