

February 10, 2023

Satin Creditcare Network Ltd.: Rating confirmed as final for PTCs backed by microfinance loan receivables issued by Elk 09 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Elk 09 2022	Series A1 PTC	56.76	[ICRA]AA-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In October 2022, ICRA had assigned Provisional [ICRA]AA-(SO) rating to Series A1 Pass-Through Certificates (PTCs) issued by Elk 09 2022. The PTCs are backed by a pool of Rs. 64.50-crore (principal amount; receivables of Rs. 77.03 crore) 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 performance after the January 2023 payouts is shown in the table below:

Parameter	Elk 09 2022
Months post securitisation	4
Pool amortisation	19.03%
Series A1 PTC amortisation	26.49%
Cumulative collection efficiency	99.48%
Cumulative prepayment rate	7.25%
Loss-cum 0+ days past due (dpd)	0.85%
Loss cum 30+ dpd	0.48%
Loss cum 90+ dpd	0.08%
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)
- No overdue contracts in the pool as on the cut-off date
- Average seasoning of ~5 months and average pre-securitisation amortisation of ~19% as on the cut-off date
- One of the largest players in microfinance industry with established track record

Credit challenges

- Moderate geographical concentration with top 3 states contributing around 49% to the initial pool principal
- 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. 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 (July 17, 2024).

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 residual cash flows from the pool, after making the promised and expected payouts, would be used for the prepayment of the Series A1 PTC principal; no residual cash flow will be paid to the residual beneficiary. Hence, the actual tenure of the PTCs is expected to be shorter owing to such acceleration.

The first line of support for Series A1 PTC in the transaction is in the form of over-collateralisation of 12.00% of the initial pool principal. Further credit support is available in the form of an EIS of 13.58% and a CC of 10.00% of the initial pool principal (Rs. 6.45 crore), 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 were no overdues in the pool as on the cut-off date. The pool had moderate pre-securitisation amortisation of ~19% as on the cut-off date. Geographical concentration was moderate with the top 3 states contributing ~68% to the initial pool principal amount. At the district level, the top 5 districts accounted for ~11% 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 18 securitisation transactions backed by micro loan receivables for Satin. All transactions, which have completed at least three payouts, have reported healthy performance with a cumulative collection efficiency of more than 99% and loss-cum-90+ days past due (dpd) of sub-1% as of the December 2022 payout month with nil CC utilisation.

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 5.00-6.00% 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. Overall, the cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the payouts to the Series A1 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/Standalone	Not Applicable

About the Originator

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 (non-deposit 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 1,057 branches in the country, as on December 31, 2022, on a standalone basis and 1,260 branches for the Group as a whole.

Satin is listed on the National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange (BSE). As on December 31, 2022, the company's consolidated managed portfolio stood at Rs. 7,945 crore. It reported a net loss of Rs. 94 crore in 9M FY2023 against a net profit of Rs. 21 crore in FY2022 at the consolidated level.

Key financial indicators (consolidated)

	FY2021	FY2022	9M FY2023*
Total income	1,374	1,381	1,122
Profit after tax	(14)	21	(94)
Gross AUM	8,379	7,617	7,945
Gross stage 3	8.4%	8.0%	3.9%
Net stage 3	4.7%	2.4%	1.5%

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	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
					Feb 10, 2023	Oct 18, 2022			
1	Elk 09 2022	Series A1 PTC	56.76	56.76	[ICRA]AA-(SO)	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
ELk 09 2022	Series A1 PTC	October 2022	10.00%	July 2024	56.76	[ICRA]AA-(SO)

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

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

Samriddhi Chowdhary

+91 22 6114 3400

samriddhi.chowdhary@icraindia.com

Sohil Mehta

+91 22 6114 3449

sohil.mehta@icraindia.com

Alwin Thankachan

+91 22 6114 3411

alwin.thankachan@icraindia.com

Rushabh Gohel

+91 22 6114 3420

rushabh.gohel@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jyantac@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, 2023 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.