

March 23, 2023

Satin Creditcare Network Ltd.: Provisional [ICRA]AA(SO) assigned to Series A1 PTC and Provisional [ICRA]A-(SO) assigned to Series A2 PTC backed by microfinance loan receivables issued by Hibiscus 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Hibiscus 2022	Series A1 PTC	96.10	Provisional [ICRA]AA(SO); Assigned
	Series A2 PTC	5.65	Provisional [ICRA]A-(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 provisional ratings 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. 113.06-crore (principal amount; receivables of Rs. 134.05 crore) microfinance loan receivables.

The provisional ratings are 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 10.00% of the initial pool principal to be provided by Satin (originator), (ii) principal subordination (15.00% of the initial pool principal for Series A1 PTC and 10.00% for Series A2 PTC) and (iii) excess interest spread (EIS) of 13.00% of the initial pool principal for Series A1 PTC and 12.13% of the initial pool principal for Series A2 PTC in the structure, as well as the integrity of the legal structure. The provisional ratings are 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
- Average seasoning of ~6 months and average pre-securitisation amortisation of ~22% 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 accounting for over 79% of 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 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 (to the extent of the monthly pool principal billed), followed by the expected interest payouts to Series A2 PTC. Post the maturity of Series A1 PTC, interest payouts will be promised to Series A2 PTC and excess cash flows, after meeting the promised Series A2 PTC interest payouts, will be passed on for the expected Series A2 PTC principal payout (to the extent of monthly pool principal billed). The entire principal repayment to Series A1 PTC and Series A2 PTC is promised on the scheduled maturity date. The residual cash flows from the pool would be used for the payment of the Series A1 PTC principal; no residual cash flow will be paid to the residual beneficiary until the payment of Series A1 PTC in full. Following the complete repayment of Series A1 PTC, the residual cash flows, after making the promised and expected payouts, would be used for the prepayment of PTC Series A2. 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 a principal subordination of 15.00% of the initial pool principal (includes the principal payable to Series A2 PTC). After Series A1 PTC has been fully paid, over-collateralisation of 10.00% of the initial pool principal could be available for Series A2 PTC. Further credit support is available in the form of an EIS. A CC of 10.00% of the initial pool principal (Rs. 11.31 crore), to be provided by Satin, would act 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 to meet the same.

There are no overdues in the pool as on the cut-off date. The pool has average pre-securitisation amortisation of 21.9% as on the cut-off date. It also has high geographical concentration with the top 3 states (Bihar, Uttar Pradesh and West Bengal) contributing over 78.7% to the initial pool principal amount. At the district level, the top 5 districts account for 18.4% of the initial pool principal amount. The company had witnessed an increase in delinquencies at the portfolio level following the onset of the Covid-19 pandemic, which has now moderated. Given the unsecured nature of the asset class, the performance of the pool could remain exposed to macro-economic shocks/business disruptions. The pool's performance 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 4.50-5.50% 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 Series A1 PTC holders on a monthly basis while the entire principal amount is promised on the final maturity date of the transaction. After Series A1 PTC is fully paid, the interest amount is promised to the Series A2 PTC holders on a monthly basis and the entire principal amount is promised on the final maturity date of the transaction. The cash flows 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 December 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	Rating Methodology for Securitisation Transactions
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 ratings are 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 ratings 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 ratings will be withdrawn in accordance with ICRA’s Policy on Provisional Ratings available at 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 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), Bombay Stock Exchange (BSE) and Calcutta Stock Exchange. 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 (audited)

	FY2021	FY2022	9M FY2023*
Total income	1,374	1,381	1,122
Profit after tax	(14)	21	(94)
Gross loan portfolio	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	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
1 Hibiscus 2022				Mar 23, 2023	-	-	-
	Series A1 PTC	96.10	96.10	Provisional [ICRA]AA(SO)	-	-	-
	Series A2 PTC	5.65	5.65	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 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
Hibiscus 2022	Series A1 PTC	March 2023	10.50%	January 2025	96.10	Provisional [ICRA]AA(SO)
	Series A2 PTC		14.10%		5.65	Provisional [ICRA]A-(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.

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