

April 25, 2023

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
Nimbus 2023 MFI Cosmos	PTC Series A1	41.01	[ICRA]AA-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In March 2023, ICRA had assigned a Provisional [ICRA]AA-(SO) rating to pass through certificates (PTC) Series A1 issued by Nimbus 2023 MFI Cosmos. The pass-through certificates (PTCs) are backed by a Rs. 56.93 crore (receivables; underlying pool principal of Rs. 46.61 crore) pool of microfinance loan receivables originated by Spandana Sphoorty Financial Limited {SSFL; rated [ICRA]A-(Positive)}. 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 April 2023 payout is shown in the table below.

Parameter	Nimbus 2023 MFI Cosmos
Months post securitisation	1
Pool amortisation	4.39%
PTC Series A1 amortisation	4.99%
Cumulative Prepayment rate	0.11%
Cumulative Collection Efficiency	99.84%
Loss-cum-0+ days past due (dpd)	0.09%
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 Excess Interest Spread (EIS), Over-Collateralisation/Subordination and Cash Collateral (CC)
- No overdue contracts in the pool as on the cut-off date

Credit challenges

- Lower seasoning and pre-securitisation amortisation as on the cut-off date
- 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
- 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 (i.e. subordination) of 12.00% of the pool principal. Further credit support is available in the form of an EIS of 14.49% and a CC of 7.00% of the initial pool principal (i.e. Rs. 3.26 crore) to be 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 same.

There are no overdues in the pool as on the cut-off date. The pool consists of loans with a weighted average seasoning of ~4 months with pre-securitisation amortisation of ~13%. The geographical concentration of the loan contracts in the current pool is high with the top three states constituting ~59% 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. Its performance would also remain exposed to macro-economic shocks/business disruptions.

Performance of past rated pools: In the past, ICRA has rated 39 microfinance loan receivable pools originated by SSFL, of which ten are live. There has been no CC utilisation till date for the live pools and the loss-cum-30+ days past due (dpd) remained below 1.0% as of the March 2023 payout month.

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.

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) (standalone)

	FY2020	FY2021	FY2022	9M FY2023
Total income	1,430.9	1,431.7	1,350.8	863.5
Profit after tax	336.7	129.0	46.6	(103.9)
Total managed assets	8,006.0	9,635.3	7,985.5	8,695.6
Gross NPA	0.4%	3.3%	17.7%	5.1%#
Net NPA	0.1%	1.5%	9.7%	2.3%

Source: Company, ICRA Research; # After sale of assets to asset reconstruction company (ARC),

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 (FY2024)				Chronology of Rating History		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	for the past 3 years		
						Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 25, 2023	Mar 09, 2023	-	-
1	Nimbus 2023 MFI Cosmos	PTC Series A1	41.01	41.01	[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
Nimbus 2023 MFI Cosmos	PTC Series A1	March 2023	10.00%	November 2024	41.01	[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:

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