

April 27, 2023

Satin Creditcare Network Ltd.: Ratings confirmed as final for PTCs issued under a microfinance loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
SAINT BEN 2022	Series A1(a) PTC	27.69	[ICRA]AA-(SO); provisional rating confirmed as final
	Series A1(b) PTC	2.60	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In January 2023, ICRA had assigned Provisional [ICRA]AA-(SO) rating to Series A1(a) Pass-Through Certificates (PTCs) and Provisional [ICRA]A-(SO) rating to Series A1(b) PTC issued by SAINT BEN 2022. The PTCs are backed by a pool of Rs. 34.61 crore (pool principal, receivables of Rs. 42.04-crore) of microfinance loan receivables originated by Satin Creditcare Network Ltd. (Satin/Originator; 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 ratings have now been confirmed as final.

A summary of the pool performance after the March 2023 payouts is shown in the table below:

Parameter	SAINT BEN 2022
Months post securitisation	3
Pool amortisation	13.43%
Series A1(a) PTC amortisation	16.79%
Series A1(b) PTC amortisation	0.00%
Cumulative collection efficiency	99.63%
Cumulative prepayment rate	2.88%
Loss-cum 0+ days past due (dpd)	0.62%
Loss cum 30+ dpd	0.31%
Loss cum 90+ 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), principal subordination and cash collateral (CC)
- Average pre-securitisation amortisation of ~14% 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 three states contributing over 55% 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 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 are assigned at par to the PTC investors. The collections from the pool will be used to make the promised interest payouts (at the predetermined yield and on pari-passu basis to the holders of Series A1(a) PTC and Series A1(b) PTC) on the outstanding PTC principal) on each payout date. The final maturity date is September 16, 2024 for Series A1(a) PTC and September 17, 2024 for Series A1(b) PTC.

Till May 17, 2024, the collections from the pool, on each payout date, will be used for making the promised interest payouts to the PTC Series A investors (i.e. interest at predetermined yield to be paid to Series A1(a) PTC and Series A1(b) PTC on a pari-passu basis). After making the promised interest payouts, the collections will be used to make the expected principal payouts to Series A1(a) PTC till its redemption followed by the expected principal payouts to Series A1(b) PTC. The entire principal repayment to Series A1(a) PTC and Series A1(b) PTC is promised on the scheduled maturity date of the respective tranches.

From May 18, 2024 till the final maturity date, the collections from the pool will be used for making the promised interest payouts to Series A1(a) PTC and Series A1(b) PTC on a pari-passu basis. After making the promised interest payouts, the collections will be utilised for the redemption of Series A1(a) and A1(b) PTCs on a pari-passu basis. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on a monthly basis.

The first line of support for Series A1(a) PTC in the transaction is in the form of a principal subordination of 20.00% of the initial pool principal (includes the principal payable to Series A1(b) PTC). After Series A1(a) PTC has been fully paid, overcollateralisation of 12.50% of the initial pool principal would be available for Series A1(b) PTC. Further credit support is available in the form of EIS of 12.63% of the initial pool principal for Series A1(a) PTC and Series A1(b) PTC. A CC of 5.00% of the initial pool principal (Rs. 1.73 crore), 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 shortfall.

There are no overdues in the pool as on the cut-off date. The pool has moderate pre-securitisation amortisation at 14.0% as on the cut-off date. It has high geographical concentration with the top 3 states (Uttar Pradesh, Bihar and Madhya Pradesh) contributing ~55% to the initial pool principal amount. At the district level, the top 5 districts account for 20.0% of the initial pool principal amount. The company has witnessed an increase in 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 going forward. 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.

Past rated pools: ICRA has live rating on 24 securitisation transactions backed by micro loan receivables for Satin. The live pools which have completed at least three payouts have reported healthy collections with nil CC utilisation up to the March 2023 payouts.

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 monthly to Series A1(a) PTC and Series A1(b) PTC on a pari-passu 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 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 ratings downgrade.

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 ratings 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), 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

Sr No	Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 27, 2023	Jan 06, 2023	-	-
1	SAINT BEN 2022	Series A1(a) PTC	27.69	27.69	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-
		Series A1(b) PTC	2.60	2.60	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1(a) PTC	Moderately Complex
Series A1(b) 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
SAINT BEN 2022	Series A1(a) PTC	December	12.09%	September	27.69	[ICRA]AA-(SO)
	Series A1(b) PTC	2022	14.00%	2024	2.60	[ICRA]A-(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

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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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