

May 24, 2023

Spandana Sphoorty Financial Limited: Provisional [ICRA]AA-(SO) assigned to PTC Series A1 issued by NIMBUS 2023 MFI IRA, backed by a pool of microfinance loan receivables

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
NIMBUS 2023 MFI IRA	PTC Series A1	101.74	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

Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction backed by microfinance loan receivables originated by Spandana Sphoorty Financial Limited {SSFL; rated [ICRA]A-(Positive)}. The PTCs are backed by a pool of Rs. 137.28-crore microfinance loan receivables (underlying pool principal of Rs. 113.68 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement available in the form of (i) a cash collateral (CC) of 7.00% of the pool principal to be provided by the originator, (ii) over-collateralisation (OC) of 10.50% of the pool principal for PTC Series A1, and (iii) the entire excess interest spread (EIS) of 14.09% of the pool principal in the structure. The provisional rating is also based on the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, OC and CC
- No overdue contracts in the pool as on the cut-off date

Credit challenges

- 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 10.50% of the pool principal. Further credit support is available in the form of an EIS of 14.09% and a CC of 7.00% of the initial pool principal (i.e., Rs. 7.96 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 ~6 months with low pre-securitisation amortisation of ~19%. The geographical concentration of the loan contracts in the current pool is higher with the top three states constituting ~46% 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 41 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 April 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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.0-5.0% 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 analysis of the performance of SSFL's portfolio till March 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement 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 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. Power of Attorney
6. Chartered Accountant's (CA) certificate for KYC due diligence
7. Any other documents executed for the transaction including for the CC

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.

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	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
1	NIMBUS 2023 MFI IRA	PTC Series A1	101.74	101.74	May 24, 2023 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)	Rating
NIMBUS 2023 MFI IRA	PTC Series A1	May 2023	9.95%	February 2025	101.74	Provisional [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

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About ICRA Limited:

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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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