

May 26, 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
Allium 03 2023	PTC Series A1(a)	28.84	[ICRA]AA(SO); provisional rating confirmed as final
	PTC Series A1(b)	3.31	[ICRA]A-(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 PTC Series A1(a) and a Provisional [ICRA]A-(SO) rating to PTC Series A1(b) issued by Allium 03 2023. The pass-through certificates (PTCs) are backed by a Rs. 44.90 crore (receivables; underlying pool principal of Rs. 36.74 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	Allium 03 2023
Months post securitisation	1
Pool amortisation	4.43%
PTC Series A1(a) amortisation	5.67%
PTC Series A1(b) amortisation	0.00%
Cumulative Prepayment rate	0.11%
Cumulative Collection Efficiency	99.29%
Loss-cum-0+ days past due (dpd)	0.24%
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), overcollateralisation/subordination and cash collateral (CC)
- No overdue contracts in the pool as on the cut-off date

#### Credit challenges

- Geographically concentrated pool at state level with the top three states having ~67% share of pool as on the cut-off date
- 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 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(a) in the transaction is in the form of a subordination of 21.50% of the pool principal (includes principal payable to PTC Series A1(b)). After PTC Series A1(a) has been fully paid, subordination of 12.50% of the pool principal (includes equity tranche and overcollateralization) will be available for PTC Series A1(b). Further credit support is available in the form of an EIS of 13.85 % for PTC Series A1(a) and PTC Series A1(b). ICRA takes note that the CC provided is 5.30% of the initial pool principal as against 5.00% indicated at the time of assigning provisional rating. The CC to be provided by SSFL, 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.

Till August 17, 2024, the collections from the pool will be used for making promised interest payouts to PTC Series A1(a) and PTC Series A1(b) on a pari passu basis. After making the promised interest payouts to PTC Series A1(a) and A1(b), collections will be used to make the expected principal payouts to PTC Series A1(a) till its redemption followed by the expected principle payout to PTC Series A1(b). The entire principal repayment to PTC Series A1(a) and PTC Series A1(b) is promised on the scheduled maturity date of respective tranches. From August 18, 2024 till the final maturity date, the collections from the pool will be used for making promised interest payouts to PTC Series A1(a) and PTC Series A1(b) on a pari passu basis. After making the promised interest payouts, collections will be utilised for redemption of PTC Series A1(a) and A1(b) on pari passu basis. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on a monthly basis. All prepayment amounts would be passed on to PTC Series A1(a) till August 17, 2024. From August 18, 2024, the prepayment amounts would be passed on to PTC Series A1(a) and PTC Series A1(b) on a pari passu basis for the respective amounts outstanding till complete redemption.

There were no overdues in the pool as on the cut-off date. The pool consists of loans that have moderate seasoning with a weighted average seasoning of ~4 months and moderate pre-securitisation amortisation of 12.48% as on the pool cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top 3 states constituting ~67% of the pool principal as on the cut-off date. 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. Also, its performance would remain exposed to macro-economic shocks/business disruptions.

**Performance of past rated pools:** ICRA has previously rated 42 microfinance loan receivable pools originated by SSFL. For the live pools, there has been no CC utilisation till date and the loss-cum-30+ days past due (dpd) is below 1.0% as on April 2023 payout.

## 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 4.25-5.25% 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 for PTC Series A1(a) and PTC Series A1(b)

As per the transaction structure, only the interest amount is promised monthly to the PTC Series A1(a) and PTC Series A1(b) on 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 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 ratings 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 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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)

Spandana Sphoorty Financial Limited	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	7,353.6	8,695.6
Gross non-performing assets (NPA)	0.4%	5.8%	14.2%	5.1%#
Net NPA	0.1%	3.2%	6.2%	2.3%

Amount in Rs. crore; All ratios as per ICRA’s calculations

\* Provisional numbers; # After sale of assets to asset reconstruction company (ARC);

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 for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					May 26, 2023	Mar 28, 2023	-	-	
1	Allium 03 2023	PTC Series A1(a)	28.84	28.84	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	
		PTC Series A1(b)	3.31	3.31	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	

### Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1(a)	Moderately Complex
PTC Series A1(b)	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
<b>Allium 03 2023</b>	PTC Series A1(a)	March 2023	11.30%	November 16, 2024	28.84	[ICRA]AA(SO)
	PTC Series A1(b)		13.25%	November 17, 2024	3.31	[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.

For more information, visit [www.icra.in](http://www.icra.in)

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