

June 08, 2023

Spandana Sphoorty Financial Limited: Provisional [ICRA]AA(SO) assigned to PTC Series A1(a) and Provisional [ICRA]A-(SO) assigned to PTC Series A1(b) issued by Sirius 05 2023, backed by a pool of microfinance loan receivables

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sirius 05 2023	PTC Series A1(a)	27.01	Provisional [ICRA]AA(SO); Assigned
	PTC Series A1(b)	3.10	Provisional [ICRA]A-(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No ratings would have been assigned as it would not be meaningful
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Rationale

ICRA has 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 under a securitisation transaction backed by microfinance loan receivables originated by Spandana Sphoorty Financial Limited {SSFL; rated [ICRA]A- (Positive)}. The pass-through certificates (PTCs) are backed by a pool of Rs. 42.12-crore microfinance loan receivables (underlying pool principal of Rs. 34.41 crore).

The provisional ratings are 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 5.00% of the pool principal to be provided by the originator, (ii) subordination of 21.50% of the pool principal for PTC Series A1(a) and 12.50% for PTC Series A1(b), and (iii) subordination of the entire excess interest spread (EIS) of 14.71% in the structure. The provisional ratings are also based on the integrity of the legal structure. The ratings are subject to the fulfilment of all the conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, over-collateralisation/subordination (OC) and 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 ~89% share of pool
- 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 OC) will be available for PTC Series A1(b). Further credit support is available in the form of an EIS of 14.71% for PTC Series A1(a) and PTC Series A1(b). A CC of 5.00% of the initial pool principal (Rs. 1.72 crore), 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 September 17, 2024, the collections from the pool will be used for making the 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 principal 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 the respective tranches. From September 18, 2024 till the final maturity date, the collections from the pool will be used for making the promised interest payouts to PTC Series A1(a) and PTC Series A1(b) on a pari passu basis. After making the promised interest payouts, the collections will be utilised for the redemption of PTC Series A1(a) and A1(b) 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. All prepayment amounts would be passed on to PTC Series A1(a) till September 17, 2024. From September 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 are no overdues in the pool as on the cut-off date. The pool consists of loans that have lower seasoning with a weighted average seasoning of ~5 months and moderate pre-securitisation amortisation of 15% 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 ~89% 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. 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 that have completed at least one payout, there has been no CC utilisation till date and the loss-cum-0+ days past due (dpd) is below 1.0% as of the 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 of 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

As per the transaction structure, only the interest amount is promised monthly to PTC Series A1(a) and PTC Series A1(b) 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 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 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 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. Power of Attorney
6. Chartered Accountant's (CA) certificate
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 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 ratings, the provisional ratings 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. 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	9MFY2023
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 non-performing assets (NPA)	0.4%	3.3%	17.7%	5.1%#
Net NPA	0.1%	1.5%	9.7%	2.3%

Source: Company, ICRA Research; * Provisional numbers; # 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 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	
					June 08, 2023				
1	Sirius 05 2023	PTC Series A1(a)	27.01	27.01	Provisional [ICRA]AA(SO)	-	-	-	
		PTC Series A1(b)	3.10	3.10	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
Sirius 05 2023	PTC Series A1(a)	June 2023	11.40%	January 16, 2025	27.01	Provisional [ICRA]AA(SO)
	PTC Series A1(b)		12.40%	January 17, 2025	3.10	Provisional [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

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