

July 04, 2023

Satin Creditcare Network Ltd.: Rating confirmed as final for PTCs backed by microfinance loan receivables issued by Pride January 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Pride January 2023	Series A1 PTC	78.60	[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 (PTCs) issued by Pride January 2023. The PTCs are backed by a pool of Rs. 87.33-crore (principal amount; receivables of Rs. 106.50 crore) of microfinance loan receivables originated by Satin Creditcare Network Ltd. (Satin/SCNL; rated [ICRA]A-(Stable)/[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 rating has now been confirmed as final.

A summary of the pool's performance after the June 2023 payout is shown in the table below.

Parameter	Pride January 2023
Months post securitisation	3
Pool amortisation	12.33%
Series A1 PTC amortisation	17.48%
Cumulative collection efficiency (including advance collections)	99.77%
Cumulative prepayment rate	2.38%
Loss-cum-0+ days past due (dpd)	0.40%
Loss-cum-30+ dpd	0.13%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), over-collateralisation and CC
- Average seasoning of ~4 months and average pre-securitisation amortisation of ~13% as on the cut-off date
- One of the larger players in microfinance industry with established track record

Credit challenges

- High geographical concentration with top three states contributing over 59% of the initial pool principal
- 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

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The promised cash flow schedule for Series A1 PTC, on a monthly basis, will comprise the interest (at the predetermined yield) on the outstanding PTC principal on each payout date, while the entire principal is promised on the final maturity date (November 18, 2024). On each payout date, the collections from the pool, after making the promised interest payouts to Series A1 PTC, will be used to make the expected principal payouts to Series A1 PTC. This principal payment, though, is not promised and any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payout. The remaining cash flows/proceeds, after making the promised and expected payouts, would be used for the prepayment of Series A1 PTC. Therefore, the actual tenure of the PTCs is expected to be shorter owing to such acceleration. All prepayment amounts would be passed on to Series A1 PTC (till the Series A1 PTC principal is not fully amortised) every month and its future payouts will be revised accordingly.

The first line of support for Series A1 PTC in the transaction is in the form of over-collateralisation of 10.00% of the initial pool principal. Further, credit support is available in the form of an EIS of 15.24% and a CC of 12.50% of the initial pool principal (Rs. 10.92 crore), provided by Satin. 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 were no overdues in the pool as on the cut-off date. The pool had average pre-securitisation amortisation at 12.7% as on the cut-off date. Geographical concentration was high with the top 3 states contributing 59.3% to the initial pool principal amount. At the district level, the top 5 districts accounted for 14.6% of the initial pool principal amount. The company had witnessed an increase in the delinquencies at the portfolio level following the onset of the pandemic. Given the unsecured nature of the asset class, performance of the pool could remain exposed to macroeconomic shocks/business disruptions. 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 29 securitisation transactions backed by microfinance 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 June 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 4.75-5.75% 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 to the PTC holders on a monthly basis, while the principal amount is promised on the scheduled maturity date of the transaction. Overall, the cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the payouts to the Series A1 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/tandalone	Not Applicable

About the originator

SCNL, 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 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 1,078 branches in the country as on March 31, 2023 on a standalone basis and 1,287 branches for the group as a whole.

SCNL is listed on the National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange (BSE). As on March 31, 2023, the company's consolidated AUM stood at Rs. 9,115 crore. It reported a net profit of Rs. 5 crore in FY2023 against Rs. 21 crore in FY2022 at the consolidated level.

Key financial indicators (consolidated; audited)

SCNL	FY2021	FY2022	FY2023
Total income	1,374 [^]	1,381	1,559
Profit after tax	(14)	21	5
Gross AUM	8,379	7,617	9,115
Gross stage 3	8.4%	8.0%	3.3%
Net stage 3	4.7%	2.4%	1.5%

Source: Company, ICRA Research; 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

[^]Adjusted for fair value losses

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
					Jul 04, 2023	Mar 28, 2023	-	-
1	Pride January 2023	Series A1 PTC	78.60	78.60	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 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
Pride January 2023	Series A1 PTC	March 2023	10.10%	November 2024	78.60	[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:

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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