

December 14, 2023

## Spandana Sphoorty Financial Limited: Ratings upgraded for PTCs issued under microfinance loan securitisation transactions

### Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Galaxy 10 2022	PTC Series A1	46.49	NA	8.27	[ICRA]AAA(SO); Upgraded from [ICRA]AA(SO)
Skyline 200 10 2022	PTC Series A1	199.34	NA	33.27	[ICRA]AAA(SO); Upgraded from [ICRA]A+(SO)

\*Instrument details are provided in Annexure I

### Rationale

ICRA has upgraded the ratings for the pass-through certificates (PTCs) issued under the securitisation transactions, Galaxy 10 2022 and Skyline 200 10 2022, backed by pools of microfinance loan receivables originated by Spandana Sphoorty Financial Limited {SSFL; rated [ICRA]A (Stable)}. The ratings have been upgraded on account of the high amortisation, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The ratings draw comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection levels observed in the pools till the November 2023 payout month.

### Pool performance summary

A summary of the performance of the pools till the October 2023 collection month (November 2023 payout) is tabulated below.

Parameter	Galaxy 10 2022	Skyline 200 10 2022
Months post securitisation	13	13
Pool amortisation	72.01%	72.83%
PTC Series A1 amortisation	82.20%	83.31%
Cumulative collection efficiency <sup>1</sup>	98.05%	98.48%
Cumulative prepayment rate	12.69%	9.69%
Loss-cum-30+ dpd <sup>2</sup> (% of initial pool)	2.32%	2.08%
Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)	1.62%	1.38%
Cumulative CC utilisation	0.00%	0.00%
CC available (as % of balance pool)	35.72%	26.68%
Excess interest spread (EIS) <sup>4</sup> (% of balance pool)	5.72%	5.39%
Principal subordination (% of balance pool) PTC Series A1	44.05%	46.25%
Breakeven collection efficiency <sup>5</sup> for PTC Series A1	19.81%	26.31%

<sup>1</sup> (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

<sup>2</sup> Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 30 days, as a % of Initial Pool Principal

<sup>3</sup> Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 90 days, as a % of Initial Pool Principal

<sup>4</sup> (Pool Cash flows – Cash flows to PTC investors – Originator's residual share)/Pool Principal outstanding

<sup>5</sup> (Balance Cash flows payable to investor – CC available)/Balance Pool Cash flows

## Key rating drivers

### Credit strengths

- High amortisation of pools resulting in significant build-up of credit enhancement cover available for the balance PTC payouts
- Healthy collections observed in the pools

### Credit challenges

- For Galaxy 10 2022, exposure to interest rate risk given that the yield on PTC Series A1 is floating and the pool yield is fixed
- Performance of pools would remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile; further, performance of pools would also be exposed to political and communal risks.
- Performance of the pools would remain exposed to macro-economic shocks / business disruptions, if any.

### Description of key rating drivers highlighted above

The performance of the pools has been healthy with cumulative collection efficiency around 98% as of the November 2023 payout month. The monthly collection efficiency has been upwards of 95% in all the months post securitisation. The loss-cum-30+ days past due (dpd) has been low and stood at 2.3% for Galaxy pool and 2.1% for Skyline pool as of the November 2023 payout month. There has been no cash collateral (CC) utilisation in the transactions till date in any of the payouts. Strong collections and healthy pool amortisation of ~72% and ~73%, respectively, for Galaxy and Skyline pools have led to significant build-up of the CE and low breakeven collection efficiency. The average monthly prepayment rate is lower at 0.8-1.0% for the pools. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the ratings to the current levels in the transactions. ICRA will continue to monitor the performance of the pools. Any further rating action will be based on the performance of the pools and the availability of CE relative to ICRA's expectations.

The pools' performance would remain exposed to macro-economic shocks/business disruptions. Given the marginal borrower profile, the performance would also be exposed to natural calamities and political and communal risks.

**Performance of past rated pools:** In the past, ICRA has rated 43 microfinance loan receivable pools originated by SSFL. For the live pools there has been no CC utilisation till date, with cumulative collection efficiency upwards of 98% and the loss-cum-90+ days past due (dpd) remained below 2.0% as of the November 2023 payout month.

### Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance 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 past performance of the originator's portfolio and rated pools as well as the performance and 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 loss and prepayments during the balance tenure of the pools are provided in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Galaxy 10 2022	2.5-3.5%	3.0-9.0% p.a.
2	Skyline 200 10 2022	2.0-3.0%	3.0-9.0% p.a.

## Liquidity position - Superior

As per the transaction structure for both the pools, 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 transactions. Also, the cash flows from the pools and the available CE are expected to be highly comfortable to meet the promised payouts to the PTC Series A1 investors.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – The sustained weak collection performance of the underlying pools, leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a ratings downgrade. Weakening in the credit profile of the servicer could also exert pressure on the ratings.

## Analytical approach

The rating action is based on the performance of the pools till October 2023 (collection month), the present delinquency profile of the pool, the CE available in the transaction, and the performance expected over the balance tenure of the pools.

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 an NBFC-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 an 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. The current leadership team is led by Mr. Shalabh Saxena (Managing Director & Chief Executive Officer) and Mr. Ashish Damani (President & Chief Financial Officer). The company has a 10-member board of directors, including 5 independent directors.

## Key financial indicators

Standalone	FY2022	FY2023	Q1 FY2024
Total income	1,350.8	1,355.8	496.8
Profit after tax	46.6	12.3	111.1
Total managed assets	7,985.5	9,933.3	10,260.9
Gross stage 3 (on-b/s)	18.9%	1.9%	1.5%
Net stage 3 (on-b/s)	11.5%	0.6%	0.4%

Source: Company data, ICRA Research; Amount in Rs. crore; All ratios as per ICRA calculations

**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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021
						December 14, 2023	December 05, 2022	November 04, 2022		
1	Galaxy 10 2022	PTC Series A1	46.49	8.27	[ICRA]AAA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	

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						December 14, 2023	December 05, 2022	November 04, 2022		
2	Skyline 200 10 2022	PTC Series A1	199.34	33.27	[ICRA]AAA(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	

### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Galaxy 10 2022	PTC Series A1	Complex
Skyline 200 10 2022	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 Type	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Rating
<b>Galaxy 10 2022</b>	PTC Series A1	October 2022	9.80%**	June 2024	8.27	[ICRA]AAA(SO)
<b>Skyline 200 10 2022</b>	PTC Series A1	October 2022	10.25%	July 2024	33.27	[ICRA]AAA(SO)

\*Scheduled maturity at transaction initiation; may change on account of prepayments

\*\*1-year MCLR of investor +190 bps

Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Not Applicable

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