

December 14, 2023

## Satin Creditcare Network Ltd.: Ratings confirmed as final for PTCs issued under a microfinance loan receivables securitisation transaction

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
KEDAR 2023	Series A1(a) PTC	31.94	[ICRA]AA-(SO); provisional rating confirmed as final
	Series A1(b) PTC	2.35	[ICRA]A(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

In September 2023, ICRA had assigned Provisional [ICRA]AA-(SO) rating to Series A1(a) Pass-Through Certificates (PTCs) and Provisional [ICRA]A(SO) rating to Series A1(b) PTC issued by KEDAR 2023. The PTCs are backed by a pool of Rs. 39.19 crore (pool principal, receivables of Rs. 47.23 crore) of microfinance loan receivables originated by Satin Creditcare Network Ltd. (Satin/Originator; 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 ratings have now been confirmed as final.

A summary of the pool performance after the November 2023 payouts is shown in the table below:

Parameter	KEDAR 2023
Months post securitisation	3
Pool amortisation	11.71%
Series A1(a) PTC amortisation	14.57%
Series A1(b) PTC amortisation	0.00%
Cumulative collection efficiency <sup>1</sup>	99.19%
Cumulative prepayment rate	1.88%
Loss-cum-0+ dpd (days past due) <sup>2</sup>	2.79%
Loss cum 30+ dpd <sup>3</sup>	0.81%
Loss cum 90+ dpd <sup>4</sup>	0.20%
Cumulative cash collateral utilisation	0.00%

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), over-collateralisation and cash collateral (CC)
- Average seasoning of ~6 months and average pre-securitisation amortisation of ~20% as on the cut-off date
- One of the larger players in microfinance industry with established track record

<sup>1</sup> Cumulative collections/ (Cumulative billings + Opening overdues at the time of securitisation)

<sup>2</sup> Principal outstanding on contracts aged 0+ dpd / Principal outstanding on the pool at the time of securitisation

<sup>3</sup> Principal outstanding on contracts aged 30+ dpd / Principal outstanding on the pool at the time of securitisation

<sup>4</sup> Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

### Credit challenges

- High geographical concentration with top 3 states contributing around 70% to 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 are assigned at par to the PTC investors. The collections from the pool will be used to make the promised interest payouts (at the predetermined yield and on pari-passu basis to the holders of Series A1(a) and A1(b) PTCs on the outstanding PTC principal) on each payout date. The final maturity date for Series A1(a) PTC is May 09, 2025 and for Series A1(b) PTC is May 10, 2025.

Till December 10, 2024, the collections from the pool, on each payout date, will be used for making the promised interest payouts to the PTC Series A investors (i.e. interest at predetermined yield to be paid to Series A1(a) and A1(b) PTCs on a pari-passu basis). After making the promised interest payouts, the collections will be used to make the expected principal payouts to Series A1(a) PTC till its redemption followed by the expected principal payouts to Series A1(b) PTC. The entire principal repayment to Series A1(a) and A1(b) PTCs is promised on the scheduled maturity date of the respective tranches.

From December 11, 2024 till the final maturity date, the collections from the pool will be used for making the promised interest payouts to Series A1(a) and A1(b) PTCs on a pari-passu basis. After making the promised interest payouts, the collections will be utilised for the redemption of Series A1(a) and A1(b) PTCs 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.

The first line of support for Series A1(a) PTC in the transaction is in the form of a principal subordination of 18.50% of the initial pool principal (includes the principal payable to Series A1(b) PTC). After Series A1(a) PTC has been fully paid, over-collateralisation of 12.50% of the initial pool principal would be available for Series A1(b) PTC. Further credit support is available in the form of EIS of 12.43% of the initial pool principal for Series A1(a) PTC and Series A1(b) PTC. A CC of 5.00% of the initial pool principal (Rs. 1.96 crore), provided by Satin, acts 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.

There are no overdues in the pool as on the cut-off date. The pool has average pre-securitisation amortisation at 20.14% as on the cut-off date. It has high geographical concentration with the top 3 states (Tamil Nadu, Karnataka and Gujarat ) contributing ~70% to the initial pool principal amount. At the district level, the top 5 districts account for 23.28% of the initial pool principal amount. The company had witnessed an increase in delinquencies at the portfolio level following the onset of the Covid-19 pandemic, which has now moderated. The pool's performance would remain exposed to macro-economic shocks/business disruptions. Given the marginal borrower profile, its performance would also be exposed to natural calamities and political and communal risks.

**Past rated pools:** ICRA has live ratings on 28 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 November 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 4.50-5.50% 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 monthly to Series A1(a) and A1(b) PTCs 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 CE 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. Weakening in the credit profile of the servicer could also exert pressure on the rating.

### 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

Satin Creditcare Network Ltd. (Satin), which was 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 non-banking financial company (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 1,096 branches in the country as on June 30, 2023 on a standalone basis and 1,310 branches for the Group as a whole.

Satin is listed on National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange (BSE). As on June 30, 2023, the company’s consolidated AUM stood at Rs. 9,535 crore. On a consolidated basis, it reported a net profit of Rs. 88 crore in Q1 FY2024 against Rs. 5 crore in FY2023.

### Key financial indicators

Consolidated	FY2022	FY2023	Q1 FY2024
	Audited	Audited	Provisional
<b>Total income</b>	1,381	1,559	459 <sup>^</sup>
<b>Profit after tax</b>	21	5	88
<b>Gross AUM</b>	7,617	9,115	9,535
<b>Gross stage 3</b>	8.0%	3.3%	2.5%
<b>Net stage 3</b>	2.4%	1.5%	1.2%

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 <sup>^</sup> Net of ECL

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
					Dec 14, 2023	Sept 04, 2023			
1	KEDAR 2023	Series A1(a) PTC	31.94	31.94	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-	-
		Series A1(b) PTC	2.35	2.35	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1(a) PTC	Moderately Complex
Series A1(b) 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
<b>KEDAR 2023</b>	Series A1(a) PTC	August 2023	12.11%	09 May 2025	31.94	[ICRA]AA-(SO)
	Series A1(b) PTC		12.70%	10 May 2025	2.35	[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

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Sachin Joglekar**

+91 22 6114 3470

[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

**Sumit Pramanik**

+91 22 6114 3462

[sumit.pramanik@icraindia.com](mailto:sumit.pramanik@icraindia.com)

**Rushabh Gohel**

+91 22 6114 3420

[rushabh.gohel@icraindia.com](mailto:rushabh.gohel@icraindia.com)

**Palak Bhatt**

+91 22 6114 3456

[palak.bhatt@icraindia.com](mailto:palak.bhatt@icraindia.com)

## RELATIONSHIP CONTACT

**Mr. L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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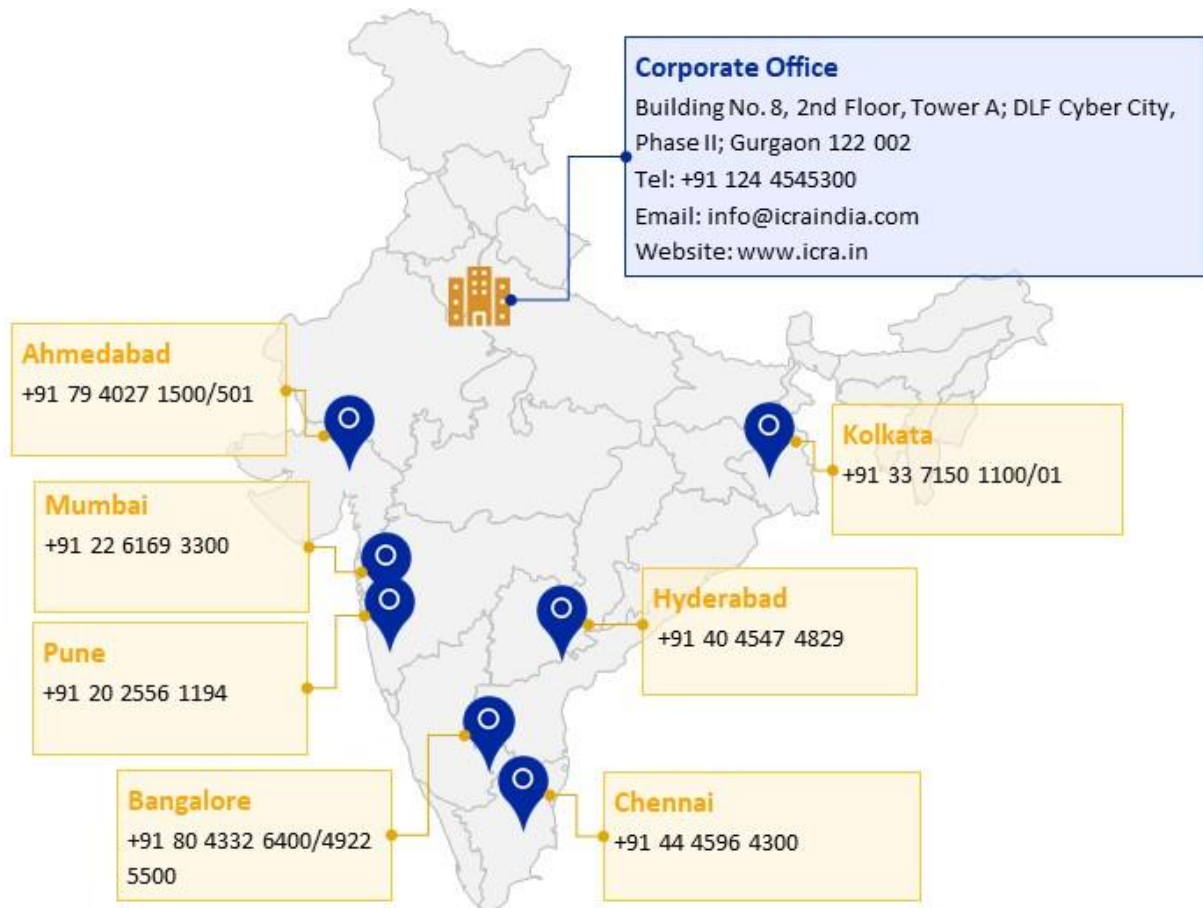
### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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