

January 05, 2024

Satin Finserv Limited: Provisional [ICRA]A+(SO) assigned to Series A1 PTC and Provisional [ICRA]BBB+(SO) assigned to equity tranche backed by secured business loan receivables issued by Ensata 12 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Ensata 12 2023	Series A1 PTC	8.36	Provisional [ICRA]A+(SO); Assigned
	Equity tranche	0.48	Provisional [ICRA]BBB+(SO); Assigned

*Instrument details are provided in Annexure I

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

ICRA has assigned provisional ratings to Series A1 PTC and the equity tranche issued under a securitisation transaction originated by Satin Finserv Limited {SFL/originator; rated [ICRA]A- (Stable)}. The pass-through certificates (PTCs) are backed by a pool of Rs. 9.55-crore (principal amount; receivables of Rs. 12.74 crore) small business loan receivables originated by SFL.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal to be provided by the originator, (ii) principal subordination of 12.50% of the initial pool principal (including the principal payable to the equity tranche) for Series A1 PTC and over-collateralisation of 7.50% of the initial pool principal for the equity tranche, and (iii) excess interest spread (EIS) of 20.83% of the initial pool principal for Series A1 PTC and the equity tranche in the structure; as well as the integrity of the legal structure. The ratings are subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, over-collateralisation and CC
- Average seasoning of ~15 months and average pre-securitisation amortisation of ~27% as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing around 62% to the initial pool principal
- Underlying loans are backed by secured property, mostly self-occupied residential property

Description of key rating drivers highlighted above

According to the transaction structure, the equity tranche is subordinate to Series A1 PTC. During the tenure of Series A1 PTC, the collections from the pool will be used to make the promised interest payouts and the expected principal payouts (to the extent of principal billed) to Series A1 PTC. Post the maturity of Series A1 PTC, the payout to the equity tranche (principal payouts to equity tranche investors) will be on expected basis, which will be due and payable only on the final maturity date. The final maturity date for Series A1 PTC and the equity tranche is June 17, 2027.

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. However, this principal payment is not promised and any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payout. All prepayment amounts would be passed on to Series A1 PTC (till the Series A1 PTC principal is not fully amortised) every month and the future payouts will be revised accordingly. The entire principal repayment to PTC Series A1 and the equity tranche is promised on the scheduled maturity date. The balance cash flows, after making the promised and expected payments, would be passed on to the residual beneficiary.

The first line of support for Series A1 PTC in the transaction is in the form of a principal subordination of 12.50% of the initial pool principal (includes the principal payable to the equity tranche). After PTC Series A1 has been fully paid, over-collateralisation of 7.50% of the initial pool principal could be available for the equity tranche. Further credit support is available in the form of an EIS of 20.83% of the initial pool principal for Series A1 PTC and the equity tranche. A CC of 5.00% of the initial pool principal (Rs. 0.48 crore), to be provided by SFL, would act as further CE 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 same.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is 15.4 months¹ with pre-securitisation amortisation of 26.6% as on the cut-off date. The pool has high geographical concentration with the top 3 states (Haryana, Punjab and Gujarat) contributing 61.6% to the initial pool principal amount. At the district level, the top district accounted for 9.6% of the initial pool principal amount while the top 10 districts accounted for 43.0%. The performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities, which may impact the income-generating capability of the borrower.

Past rated pool performance: This is the first PTC transaction of SFL to be rated by ICRA.

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 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 the 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 mean shortfall in principal collection during the tenure of the pool is estimated at 5.25-6.25%, with certain variability around it. The average prepayment rate for the underlying pool is estimated at 18.0% per annum.

Liquidity position

Series A1 PTC: Strong

As per the transaction structure, only the interest amount is promised on a monthly basis to Series A1 PTC while the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC investors.

Equity tranche: Adequate

After Series A1 PTC is fully paid, the entire principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available CE are expected to be adequate to meet the promised payouts to the equity tranche.

¹ Basis number of instalments as shared by the originator

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 CE utilisation levels, would result in a rating 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 analysis of the performance of SFL’s portfolio till September 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover 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. Chartered Accountant’s know your customer (KYC) certificate
6. Any other documents executed for the transaction

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 rating 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 rating, the provisional rating will be withdrawn in accordance with ICRA’s Policy on Provisional Ratings available at www.icra.in.

About the originator

SFL is a non-banking financial company (NBFC) and a wholly-owned subsidiary of Satin Creditcare Network Ltd. (SCNL). It offers micro, small and medium enterprise (MSME) loans (retail and wholesale) and loans to joint liability groups (JLGs) for its business correspondent (BC) partners. It had operations in 10 states as on September 30, 2023 and reported assets under management (AUM) of Rs. 638 crore. On a standalone basis, it reported a net profit of Rs. 2 crore in H1 FY2024 (total comprehensive income (TCI) of Rs. 3 crore) against Rs. 6 crore in FY2023 (TCI of Rs. 6 crore).

SCNL is an NBFC-microfinance institution (NBFC-MFI), primarily offering JLG loans to women borrowers. It operates through 1,335 branches spreads across 24 States/Union Territories on a consolidated basis. Apart from SFL, SCNL has another wholly-owned subsidiary – Satin Housing Finance Limited (SHFL).

Key financial indicators

Satin Finserv Limited (audited; standalone)	FY2021	FY2022	FY2023	H1 FY2024*
Accounting as per	IndAS	IndAS	IndAS	IndAS
	Pre-merger	Post-merger	Post-merger	Post-merger
Total income	25	97	107	58
Profit after tax	5	-20	6	2
AUM	131	890	682	638
Gross NPA	1.5%	5.4%	4.6%	4.7%
Net NPA	0.7%	3.3%	2.3%	2.8%

Source: Company, ICRA Research; * Limited review numbers; All ratios as per ICRA's calculations; Amount in Rs. crore
Pre-merger and post-merger refer to the pre- and post-merger situation of Taraashna with SFL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
Ensata 12 2023	Series A1 PTC	8.36	8.36	Jan 05, 2024 Provisional [ICRA]A+(SO)	-	-	-
	Equity tranche	0.48	0.48	Provisional [ICRA]BBB+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Equity tranche	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 / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Ensata 12 2023	Series A1 PTC	December 2023	13.20%	June 2027	8.36	Provisional [ICRA]A+(SO)
	Equity tranche	December 2023	Residual	June 2027	0.48	Provisional [ICRA]BBB+(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

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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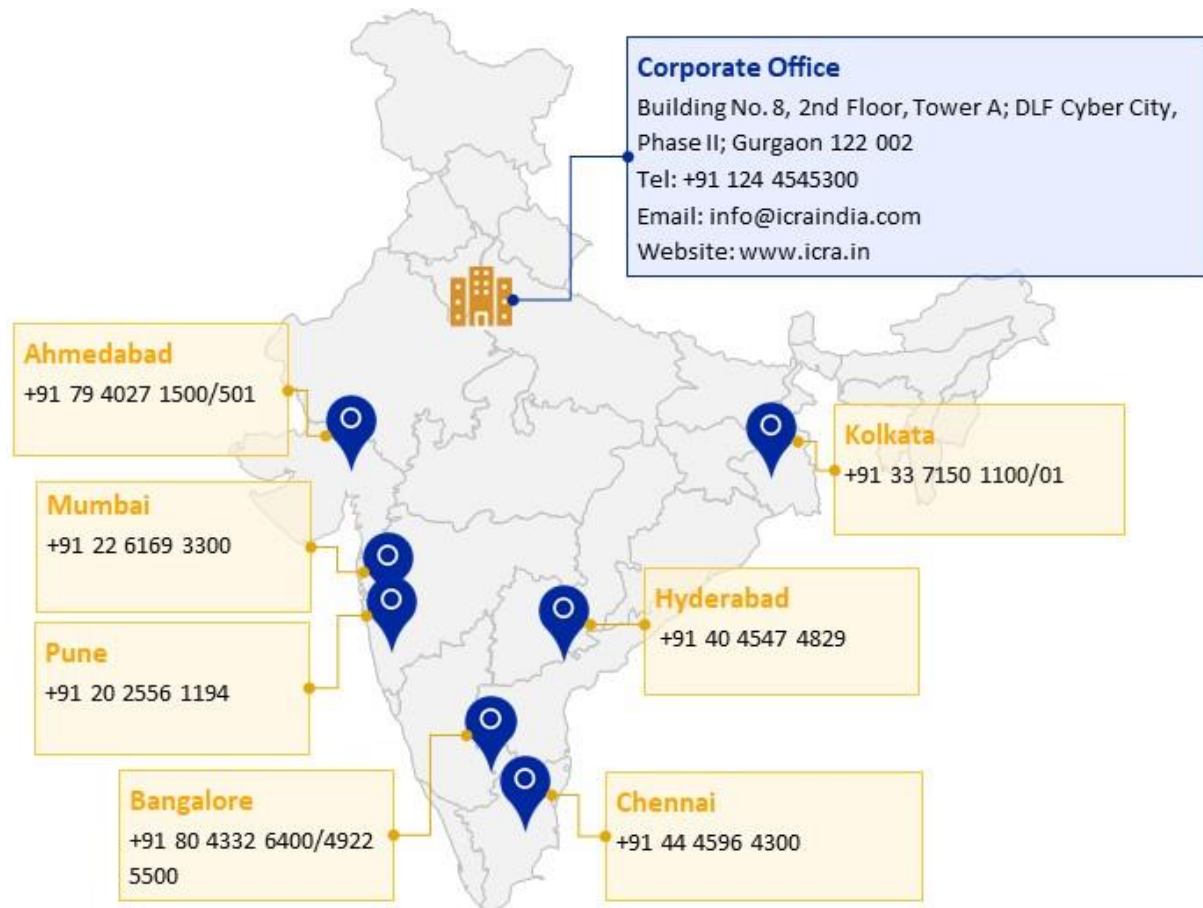
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