

March 31, 2024

Satin Finserv Limited: Provisional [ICRA]A(SO) assigned to Series A1 PTC backed by secured business loan receivables issued by Leonard 03 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Leonard 03 2024	Series A1 PTC	21.06	Provisional [ICRA]A(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 a provisional rating to Series A1 PTC 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. 23.40-crore (principal amount; receivables of Rs. 30.81 crore) small business loan (SBL) receivables originated by SFL.

The provisional rating is 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 3.00% of the initial pool principal to be provided by the originator, (ii) principal subordination of 10.00% of the initial pool principal (including equity tranche and over-collateralisation) for Series A1 PTC and (iii) excess interest spread (EIS) of 20.50% of the initial pool principal for Series A1 PTC; as well as the integrity of the legal structure. The rating is 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 ~13 months and average pre-securitisation amortisation of ~26% as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing around 73% 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's performance would 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 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. Principal payouts 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 July 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 future payouts will be

revised accordingly. The entire principal repayment to PTC Series A1 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 10.00% of the initial pool principal (includes the equity tranche). Further credit support is available in the form of an EIS of 20.50% of the initial pool principal for Series A1 PTC and the equity tranche. A CC of 3.00% of the initial pool principal (Rs. 0.70 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 were no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool was 12.9 months¹ as on the cut-off date. The pool has high geographical concentration with the top 3 states (Haryana, Punjab and Rajasthan) contributing ~73% to the initial pool principal amount. At the district level, the top 5 districts account for 61.5% of the initial pool principal. 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: ICRA has rated one SBL-backed PTC transaction of SFL. The pool performance, as of the February 2024 payouts, showed a healthy cumulative collection efficiency of more than 99% while the 0+ days past due (dpd) was below 1% of the pool principal.

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 4.50-5.50%, with certain variability around it. The average prepayment rate for the underlying pool is estimated at 18.0% per annum.

Liquidity position: Strong

The liquidity for the instrument in the transaction is strong after factoring in the CE available to meet the promised payouts to the investors. The total CE would be 4.75 times the estimated loss in the pool.

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 rating.

¹ Basis number of instalments as shared by the originator

Analytical approach

The rating action is based on the analysis of the performance of SFL’s portfolio till December 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 rating is 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 11 states as on December 31, 2023 with assets under management (AUM) of Rs. 657 crore. On a standalone basis, it reported a net profit of Rs. 3.6 crore in 9M FY2024 (total comprehensive income (TCI) of Rs. 3.8 crore) against Rs. 6.1 crore in FY2023 (TCI of Rs. 6.0 crore).

SCNL is an NBFC-microfinance institution (NBFC-MFI), primarily offering JLG loans to women borrowers. It operates through 1,386 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	9M FY2024*
Accounting as per	IndAS	IndAS	IndAS	IndAS
	Pre-merger	Post-merger	Post-merger	Post-merger
Total income	25	97	107	90
Profit after tax	5	-20	6	4
Total managed assets	141	990	785	768
Gross NPA	1.5%	5.4%	4.6%	4.6%
CRAR	80.2%	54.5%	46.6%	47.8%

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
				Mar 31, 2024	-	-	-
Leonard 03 2024	Series A1 PTC	21.06	21.06	Provisional [ICRA]A(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 Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Leonard 03 2024	Series A1 PTC	March 2024	12.00%	July 2027	21.06	Provisional [ICRA]A(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.

For more information, visit www.icra.in

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