

May 21, 2024

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

### Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount after Apr-24 Payout (Rs. crore)	Rating Action
Allium 03 2023	PTC Series A1(a)	28.84	NA	3.21	[ICRA]AAA(SO); Upgraded from [ICRA]AA(SO)
	PTC Series A1(b)	3.31	NA	3.31	[ICRA]AA+(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 transaction, Allium 03 2023, backed by a pool of microfinance loan receivables originated by Spandana Sphoorty Financial Limited {SSFL; rated [ICRA]A(Positive)}. 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 April 2024 payout month.

### Pool performance summary

Parameter	Allium 03 2023
Payout month	April 2024
Months post securitisation	13
Pool amortisation	69.71%
PTC Series A1(a) amortisation	88.89%
PTC Series A1(b) amortisation	Nil
Cumulative collection efficiency <sup>1</sup>	97.42%
Cumulative prepayment rate	12.28%
Loss-cum-30+ days past due (dpd) <sup>2</sup> (% of initial pool)	3.37%
Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)	2.46%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	17.51%
Excess interest spread (EIS <sup>4</sup> ; % of balance pool)	6.29%
PTC Series A1(a)	6.29%
PTC Series A1(b)	
Principal subordination (% of balance pool)	
PTC Series A1(a)	71.20%
PTC Series A1(b)	41.48%
Breakeven collection efficiency <sup>5</sup> for	
PTC Series A1(a)	12.19%
PTC Series A1(b)	39.65%

<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 pool resulting in build-up of credit enhancement cover available for the balance PTC payouts
- Healthy collections and low delinquencies observed in the pool

### Credit challenges

- Performance of the pool would remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile; further, performance of the pool would also be exposed to political and communal risks
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

## Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of ~97.4% as of the April 2024 payout month. The monthly collection efficiency has exceeded 95% in all the months post securitisation. The loss cum 30+ dpd is moderate and loss cum 90+ dpd lower at sub 2.5%. While certain geographies in the pool have performed weaker their share in balance pool is lower. There has been no cash collateral (CC) utilisation in the transaction till date in any of the payouts. Healthy collections and healthy pool amortisation have led to significant build-up of the CE and low breakeven collection efficiency. The average monthly prepayment rate has been moderate for the pool at ~1%. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the ratings to the current level in the transaction. ICRA will continue to monitor the performance of the pools. Any further rating actions will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

The pool 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 a cumulative collection efficiency of more than 98% and a loss-cum-90+ dpd of less than 2.5% as of the April 2024 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 mean shortfall in principal collection during the tenure of the pool is estimated at ~2.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 3.0-9.0% per annum.

## Liquidity position: Superior

The liquidity for all the PTC instruments is superior after factoring in the credit enhancement available to meet the promised payouts to the investors. The total credit enhancement is around 9.50 times the estimated loss for the pool for PTC Series A1(a) and around 6.50 times the estimated loss for the pool for PTC Series A1(b).

## Rating sensitivities

**Positive factors** – Not applicable for PTC Series A1(a). For PTC Series A1(b), the rating may be upgraded once CC fully covers the future PTC payouts.

**Negative factors** – Sustained weak collection performance of the underlying pool, 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 pool till March 2024 (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 pool.

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, which was started 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	H1 FY2024
Total income	1,350.8	1,355.8	1,105.1
Profit after tax	46.6	12.3	227.4
Total managed assets	7,985.5	9,933.3	11,862.1
Gross stage 3 assets	18.9%	1.9%	1.3%
CRAR	50.7%	36.9%	37.0%

Source: Company data, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's 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 (FY2025)				Chronology of Rating History for the past 3 years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
					May 21, 2024	May 26, 2023	Mar 28, 2023	-	
1	Allium 03 2023	PTC Series A1(a)	28.84	3.21	[ICRA]AAA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	
		PTC Series A1(b)	3.31	3.31	[ICRA]AA+(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	

### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Allium 03 2023	PTC Series A1(a)	Moderately Complex
	PTC Series A1(b)	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>Allium 03 2023</b>	PTC Series A1(a)	March 2023	11.30%	November 16, 2024	3.21	[ICRA]AAA(SO)
	PTC Series A1(b)	March 2023	13.25%	November 17, 2024	3.31	[ICRA]AA+(SO)

\*Scheduled maturity 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:

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