June 06, 2024

Share Microfin Limited: Provisional [ICRA]A(SO) assigned to Series A1 PTCs backed by microfinance loan receivables issued by Coral May 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Coral May 2024	Series A1 PTCs	11.57	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

Rationale

The pass-through certificates (PTCs) are backed by a pool of microfinance loan receivables originated by Share Microfin Limited {SML/Originator; rated [ICRA]BBB- (Stable)} with an aggregate principal outstanding of Rs. 13.15 crore (pool receivables of Rs. 15.23 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal amounting to Rs. 0.66 crore to be provided by the Originator, (ii) over-collateralisation of 12.00% of the initial pool principal for Series A1 PTCs, and (iii) the EIS of 9.30% of the initial pool principal for Series A1 PTCs.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 3,602 contracts, with no contract exceeding 1% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, over-collateralisation and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

Seasoned contracts in the pool – The pool had amortised by almost 26%, as on the cut-off date, with no delinquencies observed in any of the contracts, post loan disbursement, thereby reflecting the borrowers' relatively better credit profile.

No overdue contracts in the pool – The pool has been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, none of the contracts in the pool have ever been delinquent, which is a credit positive.

Credit challenges

Moderate geographical concentration – The pool has moderate geographical concentration with the top 3 states, viz. Bihar, Madhya Pradesh and Odisha, contributing ~40% to the initial pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc. Nonetheless, the contracts are well-diversified across multiple districts with the top 10 districts not exceeding 20% of the pool amount, alleviating the concentration risk to some extent.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The performance of microfinance loans would also be exposed to political and communal risks.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered based on the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.25% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 3.0% to 9.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Liquidity position: Strong

The liquidity for Series A1 PTCs is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be 5.25 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 credit enhancement 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 analysis of the performance of SML's portfolio till March 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement 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 a final rating 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

Share Microfin Limited (SML) is a non-deposit accepting non-banking financial company-microfinance institution (NBFC-MFI), incorporated as a public limited company in 1999. It provides microfinance loans to women from the weaker sections of society under the joint liability group (JLG) model. Mr. M. Udaia Kumar is the founder and Managing Director of the company. He has over 35 years of experience in the fields of financial inclusion and sustainable and development financing.

SML was impacted by Andhra Pradesh Microfinance Institutions Ordinance 2010 as it had sizeable exposure in the state. It was admitted to CDR in September 2011 and has since been making payments accordingly. Subsequently, a scheme of arrangement, approved by the Hon'ble High Court of Hyderabad, was implemented by SML being vested with non-Andhra Pradesh (AP) & Telangana (TS) business to another entity and the AP & TS business being vested with another entity – Asmitha Microfin Limited (Asmitha). Subsequently, the company paid all the debt obligations (debt principal, interest, OCCRPS, OCCRPS redemption premium) to all the lenders on March 29, 2023, using the proceeds from a direct assignment (DA) transaction, as laid down by the payment agreement entered with these lenders.

SML's operations are geographically diversified with a presence in 18 states across 295 districts and 720 branches. Its assets under management (AUM) stood at Rs. 550.0 crore as of March 2024 (Rs. 628.5 crore as of March 2023). The company reported a net profit of Rs. 2.1 crore on a managed asset base of Rs. 675.9 crore in FY2024 compared to Rs. 4.3 crore and Rs. 722.0 crore, respectively, in FY2023.

Key financial indicators (audited)

	FY2022	FY2023	FY2024
Total income	140.7	163.0	87.7
Profit after tax	3.2	4.3	2.1
Total managed assets	664.8	722.0	675.9
Gross stage 3	0.6%	0.9%	1.4%
CRAR	33.5%	78.2%	69.4%

Source: Company, ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				June 06, 2024	-	-	-
Coral May 2024	Series A1 PTCs	11.57	11.57	**Provisional [ICRA]A(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTCs	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 (p.a.p.m)**	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Coral May 2024	Series A1 PTCs	May 2024	12.50%	February 17, 2026	11.57	Provisional [ICRA]A(SO)

**Scheduled PTC maturity date at transaction initiation; may change on account of prepayments*
***Fixed coupon rate*
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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