

June 24, 2024

## Spandana Sphoorty Financial Limited: Rating 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 May-24 Payout (Rs. crore)	Rating Action
Sunflower 03 2023	PTC Series A1	48.52	NA	41.18	[ICRA]AA-(SO); Upgraded from [ICRA]A-(SO)

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) are backed by a pool of microfinance loan receivables originated by Spandana Sphoorty Financial Limited {SSFL/Originator; rated [ICRA]A(Positive)}. The rating of PTCs has been upgraded on account of the build-up of the credit enhancement cover over the future PTC payouts. The rating draws comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection levels observed in the pool till the May 2024 payout month.

### Pool performance summary

Parameter	Sunflower 03 2023
Payout month	May 2024
Months post securitisation	13
Pool amortisation	3.30%
PTC Series A1 amortisation	15.12%
Cumulative collection efficiency <sup>1</sup>	98.18%
Cumulative prepayment rate	27.35%
Loss-cum-30+ days past due (dpd) <sup>2</sup> (% of initial pool)	3.45%
Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)	1.95%
Cumulative credit collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	10.34%
Excess interest spread (EIS <sup>4</sup> ; % of balance pool) PTC Series A1	9.89%
Principal subordination (% of balance pool) PTC Series A1	18.81%
Breakeven collection efficiency <sup>5</sup> for PTC Series A1	70.35%

<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

## Transaction structure

As per the structure, tenure of the transaction is divided into two periods viz. replenishment period and amortisation period. The replenishment period was for a period of 12 months from the transaction commencement date which ended in April 2024. The transaction is now under amortisation period and first payout to PTC Series A1 was done in May 2024 (payout month).

During replenishment period, PTC Series A1 investors received only the promised interest payouts on a monthly basis. Post interest payment, balance pool collections were utilised to purchase additional loan receivables. Further, if there was a shortfall in assigning eligible contracts (as per pre-defined eligibility criteria), the PTCs were prepaid. These led to an increase in assigned pool and some reduction in PTC principal during the replenishment period. Hence, subordination for PTC Series A1 increased during the replenishment period.

During the amortisation period, monthly cash flow schedule comprises of the promised interest payout to PTC Series A1. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is entirely promised on the final maturity date. Any surplus 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 the PTC Series A1 principal.

## Key rating drivers and their description

### Credit strengths

**Build-up of credit enhancement** – The rating upgrade factors in the build-up in the credit enhancement with the subordination increasing to 18.8% of the balance pool principal from 7.5% at the time of securitisation. Credit support is also available through cash collateral (CC) of 5.1% and excess interest spread (EIS) of 9.9% of the balance pool principal. In addition, there is corporate guarantee of 5.1% provided by SSFL, however, the same is not factored in while arriving at the final rating

**Healthy collections** – The collections for the pool have been healthy with cumulative collection efficiency observed upwards of 98% and monthly collections on greater than 95% respectively.

### Credit challenges

**Moderate geographical concentration** – The pool has moderate geographical concentration with the top three states, viz. Madhya Pradesh, Odisha and Jharkhand accounting for ~45% of the balance pool principal. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

**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 on the basis of 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 which has now static post end of replenishment period, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.75% of the initial pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 3% to 9% 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.

## Details of key counterparties

The key counterparties in the rated transaction is as follows:

Transaction Name	Sunflower 03 2023
Originator	Spandana Sphoorty Financial Limited
Servicer	Spandana Sphoorty Financial Limited
Trustee	Catalyst Trusteeship Limited
Cash collateral FD bank	Bandhan Bank
Corporate guarantee provider	Spandana Sphoorty Financial Limited
Collection and payout account bank	ICICI Bank

## Liquidity position: Superior

The liquidity for the PTC instrument is superior after factoring in the credit enhancement available to meet the promised payouts to the investors. The total credit enhancement is ~7.0 times the estimated loss for the pool for PTC Series A1.

## Rating sensitivities

**Positive factors** – The sustained strong collection performance of the underlying pool of contracts 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 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 performance of the pool till the May 2024 payout month (April 2024 collection month), the present delinquency profile of the pool, the credit enhancement available in the pool, 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
<b>Total income</b>	1,350.8	1,355.8	1,105.1
<b>Profit after tax</b>	46.6	12.3	227.4
<b>Total managed assets</b>	7,985.5	9,933.3	11,862.1
<b>Gross stage 3 assets</b>	18.9%	1.9%	1.3%
<b>CRAR</b>	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
					June 24, 2024	June 21, 2023	May 04, 2023	-	-
1	Sunflower 03 2023	PTC Series A1	48.52	41.18	[ICRA]AA-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	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 (p.a.p.m)	Maturity Date	Amount Rated (Rs. crore)	Rating
<b>Sunflower 03 2023</b>	PTC Series A1	April 29, 2023	12.00%	December 23, 2025	41.18	[ICRA]AA-(SO)

Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Not Applicable

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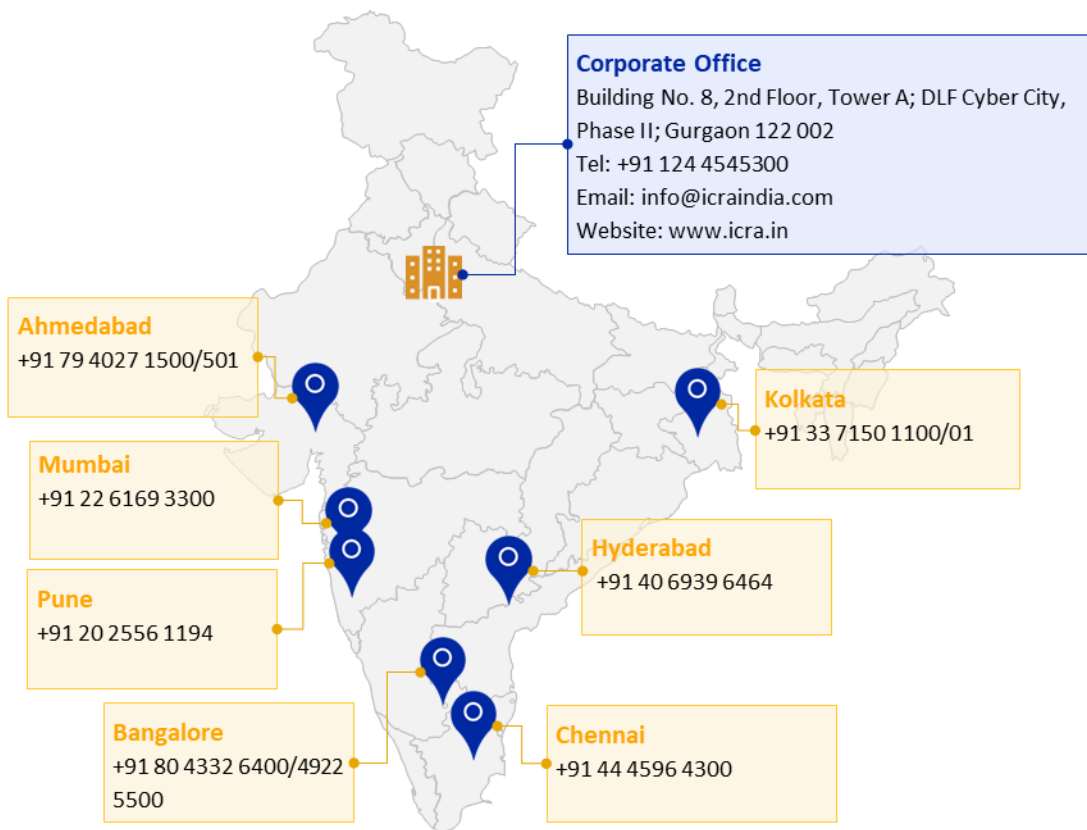
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