

July 16, 2024

## Share Microfin Limited: Rating confirmed as final for PTCs backed by pool of 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	[ICRA]A(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

ICRA had assigned provisional rating to the pass-through certificates (PTC) issued by Coral May 2024 under a securitisation transaction originated by Share Microfin Limited {SML/Originator, rated [ICRA]BBB- (Stable)}. The PTCs are backed by a pool of microfinance loan receivables originated by with an aggregate principal outstanding of Rs. 13.15 crore (pool receivables of Rs. 15.23 crore).

Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

### 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 PTCs 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-collateral 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 has 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 are 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, which alleviates 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.

## Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Coral May 2024
Originator	Share Microfin Limited
Servicer	Share Microfin Limited
Trustee	Catalyst Trusteeship Limited
CC holding Bank	ICICI Bank Limited
Collection and payout account Bank	ICICI Bank Limited

## 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 is ~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 (SML) could also exert pressure on the rating.

## Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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

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 field of financial inclusion as well as sustainable and development financing.

SML was impacted by Andhra Pradesh Microfinance Institutions Ordinance 2010, as it had sizeable exposure in the state. SML was admitted to CDR in September 2011 and had 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, and AP & TS business being vested with another entity viz. Asmitha Microfin Limited (Asmitha). Subsequently, the company through the proceeds from a direct assignment transaction paid all the debt obligations (debt principal, interest, OCCRPS, OCCRPS redemption premium) to all the lenders on March 29, 2023, as laid down by the payment agreement entered with these lenders.

SML's operations are geographically diversified with the company having a presence in 18 states across 295 districts and 720 branches. Its 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	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Initial rated amount (Rs. crore)	Current rated amount (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				July 16, 2024	June 06, 2024			
<b>Coral May 2024</b>	Series A1 PTCs	11.57	11.57	[ICRA]A(SO)	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
<b>Coral May 2024</b>	Series A1 PTCs	May 26, 2024	12.50%	February 17, 2026	11.57	[ICRA]A(SO)

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](http://www.icra.in)

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