

July 19, 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 Jun-24 Payout (Rs. crore)	Rating Action
Sirius 05 23	PTC Series A1(a)	27.01	NA	2.20	[ICRA]AAA(SO); Upgraded from [ICRA]AA(SO)
	PTC Series A1(b)	3.10	NA	3.10	[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+(Stable)}. The ratings have been upgraded on account of the high pool amortisation, which has led to the build-up of the credit enhancement 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 pool till the June 2024 payout month.

### Pool performance summary

Parameter	Sirius 05 23
Payout month	June 2024
Months post securitisation	13
Pool amortisation	72.07%
PTC Series A1(a) amortisation	82.41%
PTC Series A1(b) amortisation	0.00%
Cumulative collection efficiency <sup>1</sup>	97.10%
Cumulative prepayment rate	13.81%
Loss-cum-30+ days past due (dpd) <sup>2</sup> (% of initial pool)	4.16%
Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)	2.53%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	17.90%
Excess interest spread (EIS <sup>4</sup> ; % of balance pool)	
PTC Series A1(a)	6.88%
PTC Series A1(b)	6.88%
Principal subordination (% of balance pool)	
PTC Series A1(a)	77.13%
PTC Series A1(b)	44.90%
Breakeven collection efficiency <sup>5</sup> for	
PTC Series A1(a)	5.60%
PTC Series A1(b)	35.45%

<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, the monthly cashflow schedule comprises the promised interest payout to be paid to PTC Series A1(a) and PTC Series A1(b) on pari passu basis. On each payout date, all excess cashflow, after meeting the promised PTC Series A1(a) and PTC Series A1(b) interest payouts, will be used to meet the expected principal payout to PTC Series A1(a) (100% of the pool principal billed). After redemption of PTC Series A1(a), the excess cashflows will be used to meet the expected principal payout to PTC Series A1(b) (100% of the pool principal billed). In the event that there is any amount outstanding against both the PTC tranches on September 18, 2024, then the excess cashflows going forward will be used to meet the expected principal payouts to PTC Series A1(a) and PTC Series A1(b) on pari passu basis. The final maturity dates are January 16, 2025, and January 17, 2025 for PTC Series A1(a) and PTC Series A1(b), respectively.

Any prepayment in the pool till September 17, 2024 would be used for the prepayment of PTC Series A1(a) principal until it is fully amortised and subsequently for the prepayment of PTC Series A1(b) principal. From September 18, 2024, the prepayment amounts would be passed on to PTC Series A1(a) and PTC Series A1(b) on a pari passu basis.

Any EIS after meeting the promised and expected payouts to PTC Series A1(a) and PTC Series A1(b), will flow back to the Originator on a monthly basis.

## Key rating drivers and their description

### Credit strengths

**Build-up of credit enhancement** – The rating factors in the build-up in the credit enhancement with cash collateral increasing to ~18% of the balance pool compared to 5.00% at the time of securitisation. Internal credit support is also available through principal subordination of 77.1% and 44.9% for PTC Series A1(a) and PTC Series A1(b) respectively along with EIS of 6.9% of the balance pool principal.

**Healthy collections** – Performance of the pool has been healthy with cumulative collection efficiency of ~97% till June 2024 payout month despite some dip in collections in April 2024 and May 2024 collection months. The break-even collection efficiency is substantially lower than the monthly collection efficiency seen in the pool. Further, there have been no instances of cash collateral utilisation till date owing to strong collection performance and presence of EIS in the transactions.

### Credit challenges

**Moderate geographical concentration** – The pool has high geographical concentration with the top 3 states, namely Madhya Pradesh, Karnataka and Gujarat, contributing ~89% to the balance 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.

**Risks associated with lending business** – The pool 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, ICRA has estimated the shortfall in the pool principal collection during its tenure at 3.00% 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	Sirius 05 23
Originator	Spandana Sphoorty Financial Limited
Servicer	Spandana Sphoorty Financial Limited
Trustee	Vardhman Trusteeship Private Limited
CC holding bank	IDFC First Bank
Collection and payout account bank	ICICI Bank

## 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 6.25 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 (SSFL) could also exert pressure on the ratings.

## Analytical approach

The rating action is based on the performance of the pool till the June 2024 payout month (May 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 (audited)

Standalone	FY2022	FY2023	FY2024
Total income	1,350.8	1,355.8	2,386.7
Profit after tax	46.6	12.3	467.9
Total managed assets	7,985.5	9,933.3	13,852.3
Gross stage 3	18.9%	1.9%	1.6%
CRAR	50.7%	36.9%	32.0%

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)	Current Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
					July 19, 2024	July 17, 2023	June 08, 2023	-	-
1	Sirius 05 23	PTC Series A1(a)	27.01	2.20	[ICRA]AAA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-
		PTC Series A1(b)	3.10	3.10	[ICRA]AA+(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

#### Complexity level of the rated instrument

Instrument	Complexity Indicator
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 (p.a.p.m)	Maturity Date	Amount Rated (Rs. crore)	Rating
Sirius 05 23	PTC Series A1(a)	June 05, 2023	11.40%	January 16, 2025	2.20	[ICRA]AAA(SO)
	PTC Series A1(b)		12.40%	January 17, 2025	3.10	[ICRA]AA+(SO)

Source: Company

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

Not Applicable

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