

July 25, 2024

Sarvagram Fincare Private Limited: Rating confirmed as final for PTCs backed by secured and unsecured loan receivables issued by Magnolia 2024

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Magnolia 2024	Series A1 PTC	34.02	[ICRA]A(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA had assigned a provisional rating to the Series A1 Pass-Through Certificates (PTCs) issued by Magnolia 2024 under a securitisation transaction originated by Sarvagram Fincare Private Limited {Sarvagram/Originator; rated [ICRA]BBB (Stable)}. The PTCs are backed by a pool of secured and unsecured loan receivables originated by Sarvagram with an aggregate principal outstanding of Rs 37.80-crore (pool receivables of Rs 60.21-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.

Pool performance summary

Parameter	Magnolia 2024
Payout Month	June 2024
Months post securitisation	5
Pool amortisation	18.77%
Series A1 PTC amortisation	19.21%
Cumulative prepayment rate	5.58%
Cumulative collection efficiency ¹	98.38%
Loss-cum-0+ dpd ²	4.05%
Loss cum 30+ dpd ³	1.90%
Loss cum 90+ dpd ⁴	0.43%
Cumulative cash collateral (CC) utilisation	0.00%

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. A part of the residual cash flow from the pool (50%), after meeting the promised and expected payouts, will be used for the prepayment of the Series A1 PTC principal while the balance (50%) would be used for the payment to the Originator. Any prepayment in the pool would be used for the prepayment of the Series A1 PTC principal.

¹ (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)

² Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 0 days, as a % of Initial pool principal

³ Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of Initial pool principal

⁴ Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal

The credit enhancement available in the structure is in the form of (i) a CC of 5.00% of the initial pool principal, amounting to Rs. 1.89 crore, provided by the Originator, (ii) subordination of 10.00% of the initial pool principal for Series A1 PTC, and (iii) the excess interest spread (EIS) of 42.69% of the initial pool principal for Series A1 PTC.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular as on the cut-off date, consisting of 1,438 contracts, with top 10 contracts forming only 6.7% of the initial pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

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.

Majority of the contracts are backed by secured properties – A major part of the pool (86% of its contracts in terms of the principal amount outstanding on the cut-off date) is backed by secured properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Gujarat, Maharashtra and Karnataka, contributing ~95% to the initial pool principal amount as on the cut-off date. 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.

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 5.50% of the initial pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18.0% 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	Magnolia 2024
Originator	Sarvagaram Fincare Private Limited
Servicer	Sarvagaram Fincare Private Limited
Trustee	Vardhman Trusteeship Private Limited
CC holding Bank	ICICI Bank Limited
Collection and payout account Bank	ICICI Bank Limited

Liquidity position: Superior

The liquidity for the PTC instruments in the transaction is superior after factoring in the credit enhancement available to meet the promised payouts to the investors. The total credit enhancement would be ~7.50 times the estimated loss in the pool.

Rating sensitivities

Positive factors – 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 – Sustained weak collection performance of the underlying pool (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 (Sarvagaram) 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	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

Sarvagaram Fincare Private Limited (Sarvagaram) is a non-deposit taking NBFC that focuses on providing credit products such as farm loans, business loans, housing loans, personal/consumer durable loans, and gold loans to households with multiple sources of income in rural India. It was incorporated in November 2018 and the corporate office is in Mumbai. SFPL is a 79.7% subsidiary of Sarvagaram Solutions Private Limited (SSPL), with the balance held by the founders – Mr. Utpal Isser and Mr. Sameer Mishra. SSPL provides non-lending financial services such as farm mechanisation solutions, insurance distribution, etc, in the same geographies catered to by SFPL through a network of individual franchisees (Sarvamitras). SSPL also provides a digital platform with technology solutions to SFPL.

The Group reported a net loss of Rs.11.6 crore in FY2024 on total managed assets⁵ of Rs.1,165.9 crore while it reported a net loss of Rs. 34.1 crore on total managed assets of Rs.744.5 crore in FY2023. On a standalone basis, SFPL reported a net profit of Rs.7.6 crore on total managed assets of Rs.1,058.9 crore in FY2024 while it reported a net loss of Rs. 19.2 crore on total managed assets of Rs.491.5 crore in FY2023.

⁵ Managed Assets = Total Assets (net of goodwill) + Total off-book portfolio

Key Financial Indicators

SSPL (consolidated)	FY2022	FY2023	FY2024*
Accounting as per	IGAAP	IGAAP	IGAAP
Total Income	25.8	79.1	176.2
Profit after tax	(29.6)	(34.1)	(11.6)
Total managed assets	236.8	744.5	1,165.9
Return on managed assets	-17.7%	-6.9%	-1.2%
Managed gearing (times)	2.5	1.3	2.6

Source: Company; ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations

*Provisional numbers

SFPL (standalone)	FY2022	FY2023	FY2024
Accounting as per	IGAAP	IGAAP	IGAAP
Total Income	22.0	70.3	157.6
Profit after tax	(21.2)	(19.2)	7.6
Total managed assets	214.1	491.5	1,058.9
Return on managed assets	-15.4%	-5.4%	1.0%
Managed gearing (times)	3.0	5.9	3.8
Gross NPA / Gross Stage 3 #	1.1%	1.0%	2.0%
CRAR	28.0%	18.8%	21.9%

Source: Company, ICRA Research; #GNPA for FY2022 and FY2023 are based on 180+ dpd, FY2024 is based on 90+ dpd; All ratios as per ICRA's calculations; Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	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
					Jul 25, 2024	Feb 08, 2024	-	-
1	Magnolia 2024	Series A1 PTC	34.02	34.02	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	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 Name	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
Magnolia 2024	Series A1 PTC	February 01, 2024	11.10%	January 20, 2033	34.02	[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.

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