August 05, 2024

Spandana Sphoorty Financial Limited: Provisional [ICRA]AAA(SO) assigned to PTC Series A1 and Provisional [ICRA]A-(SO) assigned to PTC Series A2 issued by Sunrise 2024, backed by a pool of microfinance loans

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Sunrise 2024	PTC Series A1	22.39	Provisional [ICRA]AAA(SO); assigned
	PTC Series A2	33.59	Provisional [ICRA]A-(SO); assigned

**Instrument details are provided in Annexure I*

Rating in the absence of pending actions/documents	No ratings 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 Spandana Sphoorty Financial Limited ({SSFL/Originator; rated [ICRA]A+(Stable)} with an aggregate principal outstanding of Rs. 62.20 crore (pool receivables of Rs. 74.27 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts along with the eligibility criteria for follow-on pools, the credit enhancement available in the structure as well as the integrity of the legal structure. The provisional ratings are 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 tenure of the pool shall be divided into two periods – replenishment period and amortisation period. SSFL will be the Servicer for the transaction.

Replenishment period

The replenishment period will be for 12 months from the transaction commencement date. During this period, both PTC Series A1 and PTC Series A2 investors will receive only the promised interest payouts each month on pari-passu basis. The balance pool collections will be used by the trust to purchase fresh loan receivables from SSFL as per the pre-defined selection criteria which would result in build-up of the pool principal during this period and thus increase the subordination for the rated instruments.

The transaction also entails certain trigger events for early amortisation. A breach of any of these trigger events would lead to the end of the replenishment period and the start of the amortisation period. If a trigger event occurs at any time during the replenishment period, then the tenure of the PTCs shall be reduced and be co-terminus with the remaining tenure of the pool of receivables assigned to the trust.

Amortisation period

Post the replenishment period, both PTC Series A1 and PTC Series A2 investors will receive the promised interest payouts each month on pari-passu basis. All the principal collections including prepayments would be passed on to PTC Series A1 on an expected basis till the 'attachment month'. The 'attachment month' is defined as the month till which the pool principal billing would be 2 times the PTC Series A1 principal. Post the attachment month, all principal collections including prepayments would be passed on to both series of PTCs on a pari-passu basis. The principal is promised to the investors for both series of PTCs on the legal final maturity date of the transaction.

The credit enhancement for PTC Series A1 is available in the form of pool principal cover of 2 times over the PTC Series A1 principal and pool cashflow cover of ~2.5 times over the PTC Series A1 cashflows till the attachment month. For PTC Series A2 the credit enhancement is available in the form of subordination of 10% of the initial pool principal and entire excess interest spread (EIS) in the structure. Additional credit enhancement is available in the structure in the form of a CC of 5.00% of the initial pool principal, amounting to Rs. 3.11 crore, to be provided by the Originator (to the extent of 1.00% of initial principal) and its subsidiary Criss Financial {rated [ICRA]A(Stable)} (to the extent of 4.00% of initial principal). The CC will be used to meet shortfalls in promised payouts to PTC investors.

Key eligibility criteria for the receivables

The eligibility criteria shall be met on commencement of the transaction and also at each replenishment event for all the new assets being added as well as for the updated pool (as applicable).

The key eligibility criteria that have to be met are mentioned below.

- The facility is a loan to an individual, partnership, sole proprietorship
- No facility is classified as a non-performing asset for the purposes of the directions and guidelines of the RBI.
- The pool should comply with the Minimum Holding Period requirements prescribed by the RBI.
- None of the loans in the pool have residual maturity of less than 365 days
- No facility is/shall be overdue as on the respective pool cutoff date
- Underlying obligor for any facility should not have been restructured or rescheduled or NPA by Originator previously. Underlying obligor should not have had a written off status with the Originator
- All facilities have an interest payment frequency less than or equal to a month.
- State concentration to be capped at 25% and district concentration to be capped at 5% of the pool principal outstanding as on the respective cut off dates.
- As on the respective cut off dates, the initial pool/additional receivables to be purchased during Replenishment period shall exclude contracts from districts where PAR 90+ exceeds 5% as per the latest portfolio cuts
- None of the obligors should be Restructured, Written off, Settled or Suit Filed either with Originator or any other lender in last 5 years unless the current bureau score is greater than 700
- Weighted average interest rate of replenished pool should not be less than weighted average interest rate of initial pool less 2% and
- Maturity date of the underlying loans of replenished pool should not be more than February 28, 2027

Trigger events for early amortisation

The key early amortisation triggers which will lead to end of amortisation period are mentioned below.

- The Originator does not have sufficient loans (which meet the eligibility criteria)
- Utilisation of cash collateral to service PTC interest
- Rating downgrade of originator/servicer by two notches from date of transaction
- 30+ PAR on the outstanding pool breaches 10%
- Satisfaction of conditions that will trigger turbo amortisation trigger as defined in the legal documents

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The current pool is granular (no obligor has more than 0.01% share in the initial pool) and the follow-on pools are also expected to be granular thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts. Basis the utilisation of EIS during the replenishing period to purchase fresh receivables subject to eligibility criteria the subordination for both series of PTCs would increase during the replenishment period. Further as per the transaction structure, PTC Series A1 would receive principal collections till the attachment month and thus the pool cashflow cover over PTC Series A1 payouts is significantly high that supports the rating assigned to PTC Series A1.

No overdue contracts in the pool – The initial pool has no overdue contracts as on pool cut-off date. Further any follow-on pool would also not include any overdue contracts on date of assignment to trust which is a credit positive.

Credit challenges

Moderate pool selection criteria – A potential concern pertaining to a replenishing structure is the uncertainty regarding the exact composition of the additional receivables. While the current transaction has a specified eligibility criteria, the follow-on pools may have a lower seasoning, lower interest rate contracts and contracts from weaker geographies. A higher presence of lower interest rates contracts would impact the excess interest spread adversely which acts as a credit enhancement in the structure.

Risks associated with lending business – The performance of both the initial and the follow-on pools 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. However, since the pool in the current transaction would be revised during the replenishment period, the characteristics of the pool would change unlike other PTC transactions where the pool is static. ICRA has used the defined eligibility criteria to arrive at a potential loss for the follow-on pools. The resulting collections from the current pool and follow on pools, 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 transaction, ICRA has estimated the shortfall in the principal of the pool crystalised at the end of replenishment period at 4.75% of the initial pool principal at end of its tenure 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.

Liquidity position: Superior for PTC Series A1 and Strong for PTC Series A2

The liquidity for PTC Series A1 is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be more than 10 times the estimated loss in the pool.

The liquidity for PTC Series A2 is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~4.75 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable for PTC Series A1. For PTC Series A2, since the principal amortisation would begin on the crystallisation of the final pool, the ratings are unlikely to be upgraded till the final pool is crystallised. The ratings could be upgraded basis the healthy collections observed in the final crystallised pool, leading to the build-up of the credit enhancement cover over the rated PTCs.

Negative factors – The ratings could be downgraded on the occurrence of a trigger event, non-adherence to the key transaction terms and deterioration in the performance of the follow-on pools such that the delinquencies during the amortisation period are higher than expected. 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 analysis of the performance of SSFL's portfolio till March 2024, the key characteristics and composition of the current pool, the eligibility criteria for follow-on pools, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	
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 final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Auditor's 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

Spandana Sphoorty Financial Limited (SSFL) was incorporated in 2003 as a non-banking financial company (NBFC). However, it took over the microfinance operations of Spandana, a non-governmental organisation 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)

Spandana Sphoorty Financial Limited (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, ICRA Research; 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	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				August 05, 2024	-	-	-
1	Sunrise 2024	PTC Series A1	22.39	**Provisional [ICRA]AAA(SO)**	-	-	-
		PTC Series A2	33.59	**Provisional [ICRA]A-(SO)**			

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	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	Amount Rated (Rs. crore)	Current Rating
Sunrise 2024	PTC Series A1	August 05, 2024	9.00%	March 23, 2027	22.39	Provisional [ICRA]AAA(SO)
	PTC Series A2		11.40%	March 23, 2027	33.59	Provisional [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

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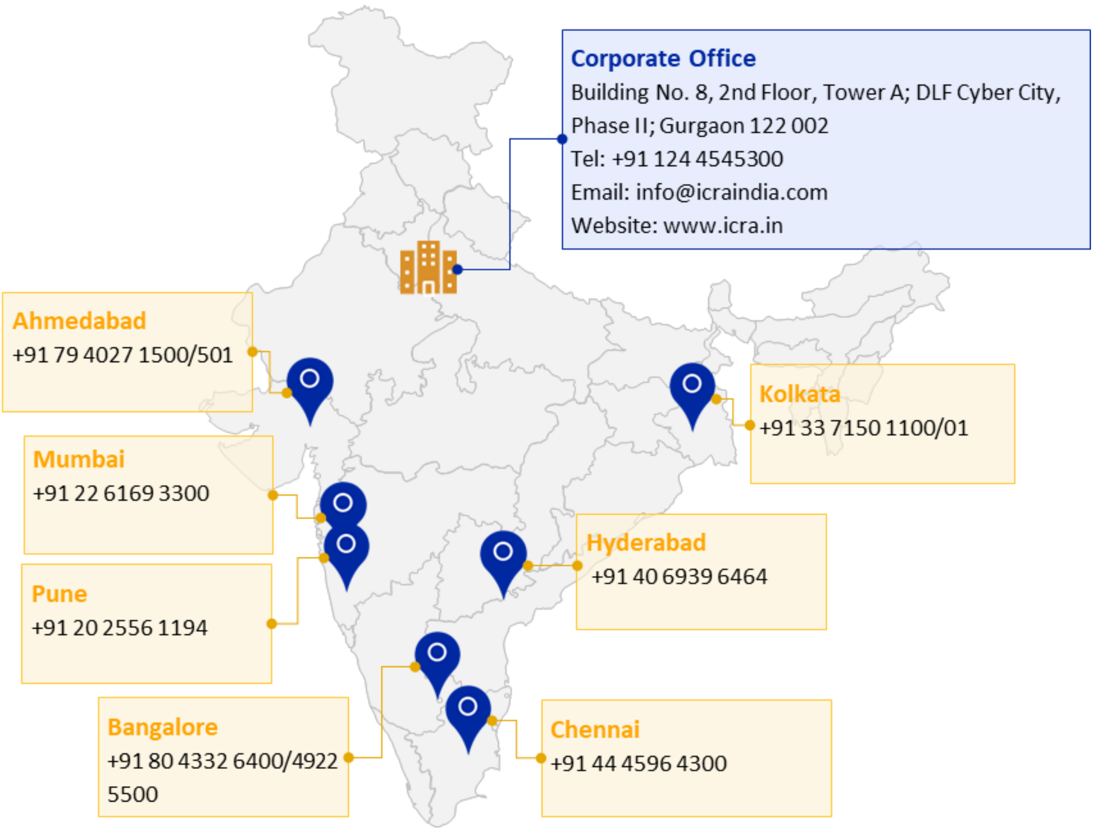

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