August 19, 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 Jul-24 Payout (Rs. crore)	Rating Action
Nimbus 2023 MFI IRA	PTC Series A1	101.74	NA	8.91	[ICRA]AAA(SO); Upgraded from [ICRA]AA-(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 rating has 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 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 July 2024 payout month.

Pool performance summary

Parameter	Nimbus 2023 MFI IRA
Payout month	July 2024
Months post securitisation	14
Pool amortisation	81.61%
PTC Amortization – PTC Series A1	91.24%
Cumulative collection efficiency[1]	97.85%
Cumulative prepayment rate	15.92%
Loss-cum-30+ days past due (dpd)[2] (% of initial pool)	2.40%
Loss-cum-90+ dpd[3] (% of initial pool)	1.67%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	38.07%
Excess interest spread (as % of balance pool) PTC Series A1	5.91%
Subordination (% of balance pool principal) - PTC Series A1	57.37%
Breakeven collection efficiency[4] for PTC Series A1	4.83%

[1] Cumulative collections excluding prepayments / (Cumulative billings + opening overdue at the time of securitization))
[2] POS on contracts aged 30+ dpd (including overdue POS) / POS on the pool at the time of securitization
[3] POS on contracts aged 90+ dpd (including overdue POS) / POS on the pool at the time of securitization
[4] (Balance cash flows payable to investor – CC available)/Balance pool cash flows

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. The residual cash flows from the pool, after meeting the promised and expected payouts, will be 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. Also, in the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the same.

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 ~38% of the balance pool compared to 7.00% at the time of securitisation. Internal credit support is also available through principal subordination of ~57% and excess interest spread (EIS) of ~6% of the balance pool principal.

Healthy pool performance – Performance of the pool has been healthy with cumulative collection efficiency of 97.9% and loss cum 90+ dpd has been low at 1.7% as on July 2024 payout month. The break-even collection efficiency has declined to 4.8%. Further, there have been no instances of cash collateral utilisation till date owing to strong collection performance and presence of EIS in the transaction.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, namely Madhya Pradesh, Bihar and Odisha, contributing ~49% 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 better diversified across multiple districts with the top 10 districts constituting around 19% of the pool amount, which alleviates the concentration risk to some extent.

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 1.75% of the initial pool 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	NIMBUS 2023 MFI IRA
Originator	Spandana Sphoorty Financial Limited
Servicer	Spandana Sphoorty Financial Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	RBL Bank
Collection and payout account bank	RBL 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 more than 10 times the estimated loss for the pool for PTC Series A1.

Rating sensitivities

Positive factors – Not applicable.

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 July 2024 payout month (June 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	Rating Methodology for Securitisation Transactions
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
					August 19, 2024	August 14, 2023	May 24, 2023	-	-
1	**NIMBUS 2023 MFI IRA**	PTC Series A1	101.74	8.91	**[ICRA]AAA(SO)**	**[ICRA]AA-(SO)**	**Provisional [ICRA]AA-(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
Nimbus 2023 MFI IRA	PTC Series A1	May 30, 2023	9.95%	February 15, 2025	8.91	[ICRA]AAA(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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