

December 23, 2024

## Spandana Sphoorty Financial Limited: Rating reaffirmed 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 Nov-24 Payout (Rs. crore)	Rating Action
Sunflower 03 2023	PTC Series A1	48.52	41.18	15.45	[ICRA]AA-(SO); reaffirmed

\*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+ (Negative)}.

The rating has been reaffirmed on account of 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 November 2024 payout month.

### Pool performance summary

Parameter	Sunflower 03 2023
Payout month	November 2024
Months post securitisation	19
Pool amortisation	59.9%
PTC Series A1 amortisation	68.2%
Cumulative collection efficiency <sup>1</sup>	97.1%
Cumulative prepayment rate	37.4%
Loss-cum-30+ days past due (dpd <sup>2</sup> ; % of initial pool)	8.4%
Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)	4.8%
Cumulative credit collateral (CC) utilisation	0.0%
CC available (as % of balance pool)	24.9%
Excess interest spread (EIS <sup>4</sup> ; % of balance pool) PTC Series A1	7.4%
Principal subordination (% of balance pool) PTC Series A1	26.5%
Breakeven collection efficiency <sup>5</sup> for PTC Series A1	46.4%

<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 tenure of the transaction is divided into two periods, viz. the replenishment period and the amortisation period. The replenishment period was for a period of 12 months from the transaction commencement date, which ended in April 2024. The transaction is now in the amortisation period and the first payout to PTC Series A1 was made in May 2024 (payout month).

During the replenishment period, PTC Series A1 investors received only the promised interest payouts on a monthly basis. Following the interest payment, the balance pool collections were utilised to purchase additional loan receivables. Further, the PTCs were prepaid if there was a shortfall in assigning eligible contracts (as per the predefined eligibility criteria). These led to an increase in the assigned pool and some reduction in the PTC principal during the replenishment period. Hence, subordination for PTC Series A1 increased during the replenishment period.

During the amortisation period, the monthly cash flow schedule comprises the promised interest payout to PTC Series A1. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is entirely promised on the final maturity date. Any surplus 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 the PTC Series A1 principal.

## 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 the credit collateral increasing to 24.9% of the balance pool principal from 10.0% at the time of securitisation. Credit support is also available through subordination of 26.5% and EIS of 7.4% of the balance pool principal.

**Adequate servicing capability of the originator** – The company has adequate processes for the servicing of the loan accounts in the securitised pool. It has a demonstrated track record of over a decade of regular collections and recoveries across multiple geographies.

### Credit challenges

**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.

**Increasing delinquencies in microfinance sector** – The microfinance sector has seen a decline in collections and a consequent rise in delinquencies in the current fiscal on account of multiple factors like heat waves, general elections, borrower overleveraging and attrition in collection teams. The sustained impact, if any, of these factors on the collections from the pool would be monitorable. The pool has seen a dip in collections in the last few months and an increase in delinquencies though there has been a healthy build-up of the credit enhancement cover.

## 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, which has now static following the end of the replenishment period, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.75% 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 are as follows:

Transaction Name	Sunflower 03 2023
Originator	Spandana Sphoorty Financial Limited
Servicer	Spandana Sphoorty Financial Limited
Trustee	Catalyst Trusteeship Limited
Cash collateral FD bank	Bandhan Bank
Corporate guarantee provider	Spandana Sphoorty Financial Limited
Collection and payout account bank	ICICI Bank

### Liquidity position: Strong

The liquidity for the PTC instrument is strong after factoring in the credit enhancement available to meet the promised payouts to the investors. The total credit enhancement is 4.75 times the estimated loss in the pool.

### Rating sensitivities

**Positive factors** – The sustained strong collection performance of the underlying pool of contracts, 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, 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 (SSFL) could also exert pressure on the rating.

### Analytical approach

The rating action is based on the performance of the pool till the November 2024 payout month (October 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 started by Ms. Padmaja Reddy 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

SSFL – Standalone	FY2023	FY2024	H1 FY2025
Total income	1,355.8	2,386.7	1,342.2
Profit after tax	12.3	467.9	(152.7)
Total managed assets	9,933.3	13,852.3	12,387.8
Gross stage 3 assets	1.9%	1.6%	5.3%
CRAR	36.9%	32.0%	35.7%

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	Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years				
			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
					December 23, 2024	June 24, 2024	June 21, 2023	May 04, 2023		
1	Sunflower 03 2023	PTC Series A1	48.52	15.45	[ICRA]AA-(SO)	[ICRA]AA-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(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
<b>Sunflower 03 2023</b>	PTC Series A1	April 29, 2023	12.00%	December 23, 2025	15.45	[ICRA]AA-(SO)

Source: Company

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

Not applicable

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Sachin Joglekar**

+91 22 6114 3470

[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

**Gaurav Mashalkar**

+91 22 6114 3431

[gaurav.mashalkar@icraindia.com](mailto:gaurav.mashalkar@icraindia.com)

**Vishal Oza**

+91 22 6114 3472

[vishal.oza2@icraindia.com](mailto:vishal.oza2@icraindia.com)

**Arijit Datta**

+91 22 6114 3433

[arijit.datta@icraindia.com](mailto:arijit.datta@icraindia.com)

## RELATIONSHIP CONTACT

**Mr. L Shivakumar**

+91 22 6169 3304

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.