

December 30, 2024

## Share Microfin Limited: Rating upgraded for PTCs backed by microfinance loan receivables securitisation transaction

### Summary of rating action

Trust name	Instrument*	Initial rated amount (Rs. crore)	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating Action
Partager December 2023	Series A1(a) PTC	20.63	20.63	2.22	[ICRA]A+(SO); upgraded from [ICRA]A-(SO)
	Series A1(b) PTC	2.29	2.29	2.29	[ICRA]A(SO); upgraded from [ICRA]BBB+(SO)

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) are backed by pool of microfinance loan receivables originated by Share Microfin Limited {SML/Originator; rated [ICRA]BBB- (Stable)}.

The rating has been upgraded for the pool on account of the healthy collections with moderate pool amortisation, which has led to a significant build-up of the credit enhancement cover over the future PTC payouts in the transaction. The rating also draws comfort from the fact that the breakeven collection efficiency is lower compared to the actual collection level observed in the pool till the November 2024 payout month.

### Pool performance summary

Parameter	Partager December 2023
Payout month	November 2024
Months post securitisation	11
Pool amortisation	70.0%
PTC amortisation	
Series A1(a) PTC	89.2%
Series A1(b) PTC	0.0%
Cumulative collection efficiency <sup>1</sup>	97.0%
Loss-cum-30+ dpd <sup>2</sup> (% of initial pool)	0.3%
Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)	0.3%
Cumulative Cash collateral (CC) utilisation	0.0%
Breakeven collection efficiency <sup>4</sup>	
Series A1(a) PTC	11.4%
Series A1(b) PTC	39.7%
CC (% of balance pool)	16.7%
Principal subordination (% of balance pool) <sup>5</sup>	
Series A1(a) PTC	71.0%
Series A1(b) PTC	41.7%
Excess interest spread (EIS; % of balance pool) <sup>6</sup>	
Series A1(a) PTC	4.7%
Series A1(b) PTC	4.7%

<sup>1</sup> (Cumulative current and overdue collections till date)/Cumulative billing till date

<sup>2</sup> Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of Initial pool principal

<sup>3</sup> Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal

<sup>4</sup> (Balance cash flows payable to investor – CC available)/Balance pool cash flows

<sup>5</sup> (Pool principal – PTC principal) / Pool principal outstanding

<sup>6</sup> (Pool Cash flows – PTC Cash flows) / Pool Principal outstanding

## Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout to Series A1(a) PTCs and Series A1(b) PTCs on a pari passu basis. Till January 10, 2025, the collections from the pool, on each payout date, will be used for making the promised interest payouts to the PTC Series A1(a) and PTC Series A1(b) on pari-passu basis. After making the promised interest payouts, the collections will be used to make the expected principal payouts to PTC Series A1(a) till its redemption followed by the expected principal payouts to PTC Series A1(b). The entire principal repayment to PTC Series A1(a) and PTC Series A1(b) is promised on the scheduled maturity date of the respective tranches.

From January 11, 2025 till the final maturity date, the collections from the pool will be used for making the promised interest payouts to PTC Series A1(a) and PTC Series A1(b) on a pari-passu basis. After making the promised interest payouts, the collections will be utilised for the redemption of PTC Series A1(a) and A1(b) on a pari-passu basis. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on monthly basis.

All prepayment amounts would be passed on to Series A1(a) PTC till January 10, 2025. From January 11, 2025, the prepayment amounts would be passed on to Series A1(a) PTC and A1(b) PTC on a pari passu basis for the respective amounts outstanding till complete redemption.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal, amounting to Rs. 1.53 crore, provided by the Originator, (ii) subordination of 21.25% of the initial pool principal for Series A1(a) PTCs and 12.50% for Series A1(b) PTCs and (iii) the EIS of 10.31% of the initial pool principal for Series A1(a) and Series A1(b) PTCs.

## Key rating drivers and their description

### Credit strengths

**Substantial credit enhancement available in the structure** – The rating factors in the build-up in the credit enhancement with cash collateral increasing to ~16.7% of the balance pool principal as compared to 5% at time of securitisation. Further internal credit support is also available through scheduled EIS and subordination.

**Healthy pool performance** – Performance of the pool has been strong with cumulative collection efficiency of ~97% which has resulted in low delinquencies in the pool with the 90+ days past due (dpd) at 0.25% as on November 2024 payout month. The break-even collection efficiency is much lower as compared to the monthly collection efficiency observed in the pool. Further, there have been no instances of cash collateral utilisation for the pool owing to strong collection performance and presence of EIS in the transaction.

### 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 consequently rise in delinquencies in the current fiscal on account of multiple factors like heat wave, general elections, borrower overleveraging and attrition in the collection teams. Any sustained impact of these factors on the collections from the pool would be a key monitorable.

## 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 4.25%. The average prepayment rate for the underlying pool is modelled in the range of 3.0% to 9.0% 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	Partager December 2023
Originator	Share Microfin Limited
Servicer	Share Microfin Limited
Trustee	Catalyst Trusteeship Limited
CC bank	ICICI Bank Limited
Collection and payout account bank	ICICI Bank Limited

## Liquidity position: for Series A1(a) PTC and Series A1(b) PTC: Superior

The liquidity for Series A1(a) PTC and Series A1(b) PTC is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be more than 6 times the estimated loss in the pool.

## Rating sensitivities

**Positive factors** – The rating could be upgraded when CC is fully covering the balance PTC payouts to the investors.

**Negative factors** – The sustained weak collection performance of the underlying pool of contracts (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 (Share Microfin Limited) could also exert pressure on the rating.

## Analytical approach

The rating action is based on the analysis of the performance of the pool till October 2024 (collection month), the present delinquency levels and 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

SML is a non-deposit accepting non-banking financial company-microfinance institution (NBFC-MFI), incorporated as a public limited company in 1999. It provides microfinance loans to women from the weaker sections of society under the joint liability group (JLG) model. Mr. M. Udaia Kumar is the founder of the company. He has over 35 years of experience in the field of financial inclusion as well as sustainable and development financing. SML was impacted by Andhra Pradesh Microfinance Institutions Ordinance 2010, as it had sizeable exposure in the state. SML was admitted to CDR in September 2011 and has since been making payments accordingly.

Subsequently, a Scheme of Arrangement, approved by the Hon'ble High Court of Hyderabad, was implemented, by SML being vested with Non-AP (Andhra Pradesh) & TS (Telangana) business, and the AP and TS business being vested with another entity Asmitha Microfin Limited (Asmitha). Subsequently, the company through the proceeds from a DA transaction, paid all the debt obligations (debt principal, interest, OCCRPS, OCCRPS redemption premium) to all the lenders on March 29, 2023, as laid down by the payment agreement entered into with these lenders.

SML's operations are geographically diversified with the company having a presence in 18 states across 295 districts and 720 branches. Its assets under management (AUM) stood at Rs. 550.0 crore as of March 2024 (Rs. 628.5 crore as of March 2023). The company reported a net profit of Rs. 2.1 crore on a managed asset base of Rs. 675.9 crore in FY2024 compared to Rs. 4.3 crore and Rs. 722.0 crore, respectively, in FY2023.

### Key financial indicators

Share Microfin Limited	FY2023	FY2024	Q1FY2025
Total income	163.0	87.7	30.7
Profit after tax	4.3	2.1	0.3
AUM	628	550	532
Gross stage 3	0.9%	1.4%	1.8%
CRAR	78.2%	69.4%	72.7%

Source: Company, ICRA Research; Amount in Rs. crore

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

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
				Dec 30, 2024	Feb 29, 2024	Jan 02, 2024	-	-
Partager December 2023	Series A1(a) PTC	20.63	2.22	[ICRA]A+(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-
	Series A1(b) PTC	2.29	2.29	[ICRA]A(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-

### Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
Partager December 2023	Series A1(a) PTC	Moderately Complex
	Series A1(b) 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	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Amount Rated (Rs. crore)	Current Rating
Partager December 2023	Series A1(a) PTC	December 19, 2023	12.9%	August 10, 2025	2.22	[ICRA]A+(SO)
	Series A1(b) PTC	December 19, 2023	13.9%	August 11, 2025	2.29	[ICRA]A(SO)

Source: Company

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

Not Applicable

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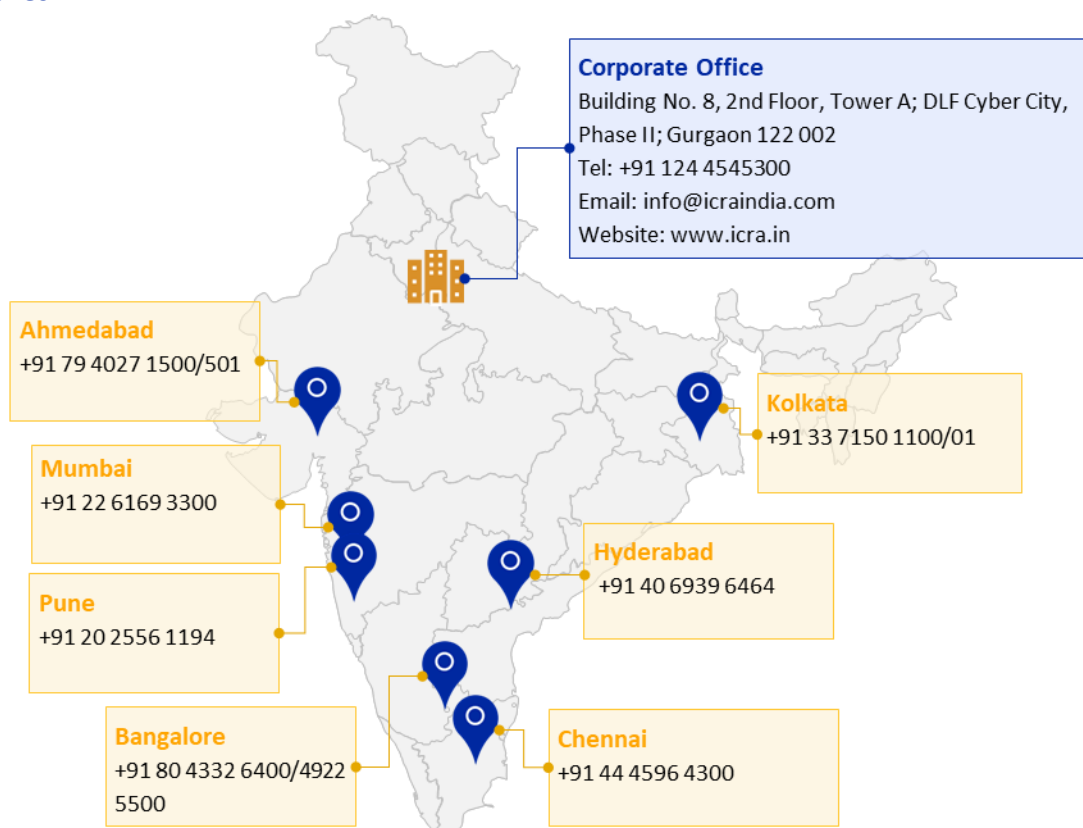
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