January 07, 2025

Satin Creditcare Network Limited: Provisional [ICRA]A-(SO) assigned to Series A1 PTC backed by microfinance loan receivables issued by Bougainvillea 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Bougainvillea 2024	Series A1 PTC	50.00	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 Satin Creditcare Network Limited. (Satin/ Originator; rated [ICRA]A(Stable)/[ICRA]A1) with an aggregate principal outstanding of Rs. 55.55 crore (pool receivables of Rs. 65.99 crore). Satin will also act as the Servicer for the transaction.

The provisional rating is 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 rating is 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– replenishment period and amortisation period.

Replenishment period

The replenishment period will be for 12 months from the transaction commencement date. During this period, Series A1 PTC investor will receive only the promised interest payouts each month. The balance pool collections will be used by the trust to purchase fresh loan receivables from Satin 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 instrument. 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

Following the replenishment period, the residual pool collections, after meeting the promised interest payouts to the PTC investors, shall be used to make the expected principal payouts to the PTC investors. However, the principal is 'promised' to the investors only on the legal final maturity date of the transaction. The transaction also entails certain trigger events for pool 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 held by the trust.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 6.00% of the initial pool principal, amounting to Rs. 3.33 crore, to be provided by the Originator, (ii) principal subordination of 10.00% of the initial pool principal for PTC Series A1 and (iii) the excess interest spread (EIS) in the structure. The initial spread i.e. difference between the pool and PTC interest rate is 14.2% while the subordination would also increase due to buildup of pool principal in the replenishment period.

Key eligibility criteria for the receivables

Eligibility Criteria

Facilities constituting the rReceivables shall be identified on the basis of criteria specified below:

- The Facility is a loan to an individual
- 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 for Initial Pool/Additional receivables to be purchased during the Replenishment Period
- Underlying obligor for any Facility should not have been restructured or rescheduled by any lender or NPA with any lender. 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.
- All the Facilities are fully disbursed by the Originator.
- No security deposits (howsoever described) have been taken as security in relation to the Facility.
- Branch concentration to be capped at 5%; District concentration at 10%
- No Facility shall involve [Environment & Social] E&S high risk transactions i.e., project or long term corporate financing to activities which are likely to have significant adverse environmental impacts that are sensitive, diverse or unprecedented, and which includes, for the avoidance of doubt, activities involving (i) involuntary resettlement; (ii) risk of adverse impacts on indigenous peoples; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, cultural heritage; or (iv) significant occupational health and safety risks (risk of serious injury or fatality to workers).
- No Facility shall have residual tenor of more than 24 months
- All Facilities has been disbursed at a fixed or floating rate of interest by the Eligible Originator and the rate of interest has not been downgraded by the Eligible Originator (nor has the Eligible Originator agreed or committed to any such reduction) and there are no provisions for a downward reset of the interest rate).
- None of the Facilities should be part of the Exclusion List [See Annexure]
- Criteria based on scrub analysis:

a. No Restructured/ Settled/ Suit Filed/ Written off contracts with adverse reporting in last 4 years unless the Bureau score is >700
b. Max DPD ever with Originator not to be greater than 30 Days
c. Max DPD ever with Any Lender not to be greater than 90 Days

- No loans with total POS as reported in bureau >INR 2 Lakhs

Additional criteria for the replenished pool

- Weighted average IRR of replenished pool should not be less than weighted average IRR of initial pool and
- The maturity date of the underlying loans of replenished pool should not be more than maturity date of the pool
- Branch concentration to not exceed 5%
- District concentration to not exceed 10%
- Single State Concentration to not exceed 40%

Trigger events for early amortisation

- Utilization of cash collateral to service Series A1 interest
- Rating downgrade of originator/servicer by 2 notches from date of transaction
- 30+ PAR on the Cumulative Pool Principal breaches 10%[to be checked at each Replenishment Period Payout Date after assuming that pool collections as per Replenishment Waterfall after paying the PTC interest shall be utilized to purchase additional "nil overdue" contracts and such additional pool principal shall be part of the denominator while calculating the ratio. Nonetheless in case the Trigger is breached and Replenishment is stopped from that month, additional 'nil overdue' contracts shall not be purchased as per the Replenishment Waterfall during that month]
- Satisfaction of conditions that will trigger Turbo Amortization Trigger

Key rating drivers

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 12,859 contracts, with no contract exceeding 0.01% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS will absorb some amount of the losses in the pool and provide support in meeting the PTC payouts. During the replenishing period, the utilisation of EIS during the replenishing period to purchase fresh receivables subject to eligibility criteria the subordination for PTCs would increase during the replenishment period.

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, majority of the contracts in the pool (~92%) have never been delinquent, which is a credit positive.

Seasoned contracts in the pool – The pool has amortised by almost 29% as on the cut-off date with no delinquencies seen in any of the contracts, post loan disbursement, thereby reflecting the borrowers' relatively better credit profile.

Track record of Originator – The Originator, which would also be servicing the loans in the transaction, has an established track record in the lending business of more than two decades and has adequate underwriting policies and collection procedures. The company has adequate processes for servicing the loan accounts in the securitised pools.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Uttar Pradesh, Bihar and West Bengal, contributing 64% 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 well-diversified across multiple districts with the top 10 districts not exceeding 20% of the pool amount, which alleviates the concentration risk to some extent.

Risks associated with lending business – The pool's performance would remain exposed to macroeconomic 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 2.4% 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: Strong

The liquidity for Series A1 PTC 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 – Since the principal amortisation would begin on the crystallisation of the final pool, the rating is unlikely to be upgraded until the final pool is crystallised. The rating could be upgraded if healthy collections are observed in the final crystallised pool, leading to the buildup of the credit enhancement cover over the rated PTCs.

Negative factors – The rating 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 could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of Satin portfolio till September 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

Satin, set up in 1990 to grant individual business loans to urban shopkeepers, started providing group lending services to the rural poor in 2008. It was registered with the Reserve Bank of India (RBI) as a deposit-taking non-banking financial company (NBFC) under the name, Satin Leasing and Finance Company Limited. Following its conversion into a public limited company in 1994, the company was renamed Satin Creditcare Network Limited. in 2000. It stopped accepting public deposits from November 2004 and the RBI changed its classification to Category B (non-deposit taking) from Category A (deposit taking) in February 2009 and converted it into an NBFC-microfinance institution (NBFC-MFI) in November 2013. The company's microfinance operations are based on the Grameen Bank joint liability group (JLG) model and were spread across 1,463 branches spread across 27 states/ union territories on a consolidated basis as on September 30, 2024.

As on September 30, 2024, its consolidated assets under management (AUM) stood at Rs. 11,749 crore. On a consolidated basis, it reported a net profit of Rs. 150 crore in H1 FY2025 (total comprehensive income (TCI) of Rs. 140 crore) against Rs. 195 crore in H1 FY2024 (TCI of Rs. 184 crore).

Key financial indicators (audited)

Satin Creditcare Network Limited	FY2023	FY2024	H1 FY2025
	Audited	Audited	Limited Review
Total income	1,762	2,051	1,183
Profit after tax	264	423	144
Total managed assets	10,070	12,934	13,270
Gross NPA	3.3%	2.5%	3.5%
CRAR	26.6%	27.7%	28.8%

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

Trust Name	Instrument	Amount Rated (Rs. crore)	Current Rating (FY2025)	Chronology of Rating History for the Past 3 Years		
			Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			January 07, 2025	-	-	-
Bougainvillea 2024	Series A1 PTC	50.00	**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	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Bougainvillea 2024	Series A1 PTC	December 30, 2023	10.60%	October 24, 2027	50.00	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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