

February 20, 2025

## Spandana Sphoorty Financial Limited: Rating confirmed as final for PTCs backed by microfinance loan receivables issued by Cartera MFI 2025

### Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Cartera MFI 2025	PTC Series A1	38.90	[ICRA]AA-(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

In February 2025, ICRA had assigned Provisional [ICRA]AA-(SO) rating to Pass Through Certificate (PTC) Series A1, issued by Cartera MFI 2025. The PTCs are backed by a pool of a microfinance loan receivables originated by Spandana Sphoorty Financial Limited (SSFL/Originator; rated [ICRA]A(Negative)) with an aggregate principal outstanding of Rs. 42.51 crore (pool receivables of Rs 50.05 crore). SSFL is the servicer for the rated transaction.

Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

### 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 available after making the promised and expected payments shall be passed on to the PTC investors on every payout date. Any prepayment in the pool would be used for the prepayment of the PTC Series A1 principal. The transaction has defined certain trigger events, on the occurrence of which the residual cash flows would be passed on to the PTC Series A1 investors.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 7.00% of the initial pool principal, amounting to Rs. 2.98 crore, to be provided by the Originator, (ii) principal subordination of 8.50% of the initial pool principal for PTC Series A1, and (iii) the excess interest spread (EIS) of 12.40% of the initial pool principal for PTC Series A1.

### Key rating drivers and their description

#### Credit strengths

**Granular pool supported by presence of credit enhancement** – The pool is granular, consisting of 12,566 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 would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

**No overdue contracts in the pool**- The pool has been filtered in such a manner that there are no overdue contracts.

**Seasoned contracts in the pool** – The pool has amortised by almost 23% 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.

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

## Credit challenges

**High geographical concentration** – The pool has high geographical concentration with the top 3 states, viz. West Bengal, Bihar and Uttar Pradesh contributing ~59% 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.

**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.

**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 collection teams. Any sustained impact of these factors on the collections from the pool would be 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 4.75% of the 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	Cartera MFI 2025
Originator	Spandana Sphoorty Financial Limited
Servicer	Spandana Sphoorty Financial Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	SBM Bank (India) Limited
Collection and payout account Bank	SBM Bank (India) Limited

## Liquidity position: Strong

The liquidity for the PTC instrument in the transaction is strong after factoring in the credit enhancement available to meet the promised payouts to the investors. The total credit enhancement would be 5.0 times the estimated loss in the pool.

## Rating sensitivities

**Positive factors** – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), 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 (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 (Spandana) could also exert pressure on the rating.

### Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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	9M FY2025
Total income	1,355.8	2,386.7	1,868.1
Profit after tax	12.3	467.9	(546.5)
Total managed assets	9,933.3	13,852.3	10,879.0
Gross stage 3	1.9%	1.6%	5.3%
CRAR	36.9%	32.0%	36.0%

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

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
			February 20, 2025	February 13, 2025	-	-	-
Cartera MFI 2025	PTC Series A1	38.90	[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**

ISIN	Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate (p.a.p.m)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
INE1M7715013	<b>Cartera MFI 2025</b>	PTC Series A1	February 13, 2025	9.80%	October 17, 2026	38.90	[ICRA]AA-(SO)

Source: Company

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

Not Applicable

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### About ICRA Limited:

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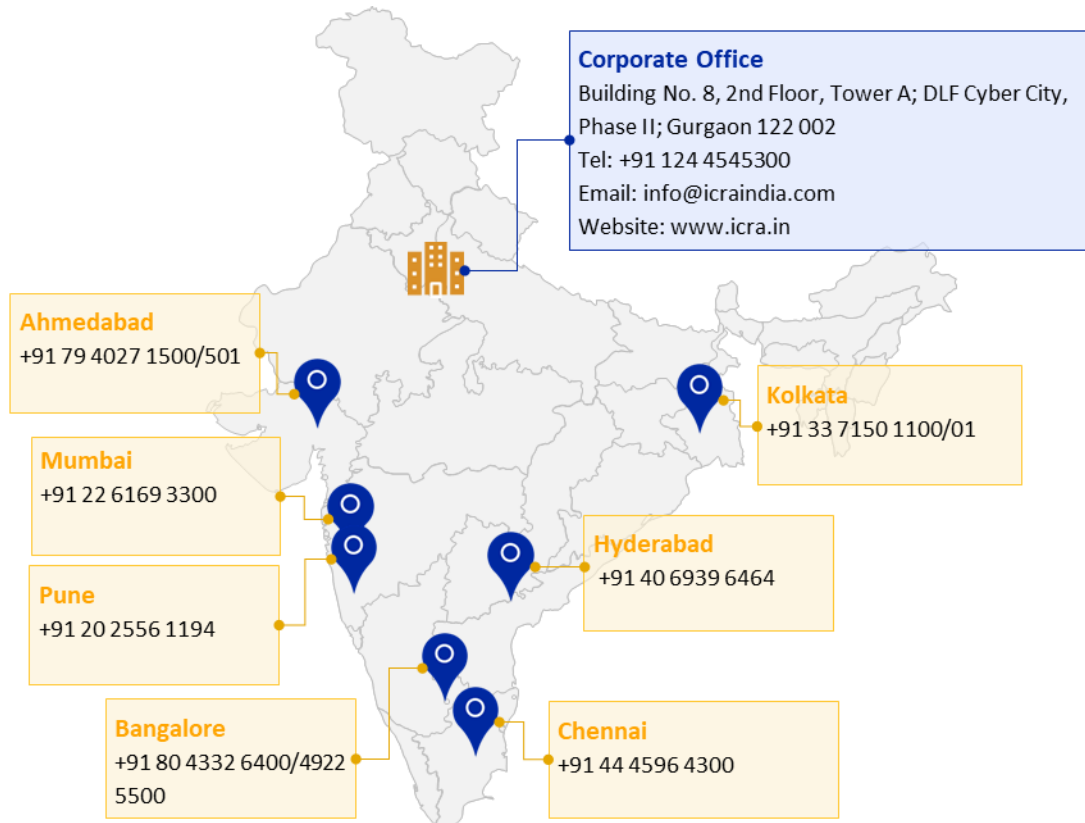
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