

May 23, 2022

Satya MicroCapital Ltd.: Rating confirmed as final for SN Series A backed by microfinance loan receivables issued by Uchiha Trust 03 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Uchiha Trust 03 2022	SN Series A	20.25	[ICRA]A(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In April 2022, ICRA had assigned a Provisional [ICRA]A(SO) rating to SN Series A under a securitisation transaction, Uchiha Trust 03 2022, The securitisation notes (SNs) are backed by a pool of Rs. 26.35-crore microfinance loan receivables (underlying pool principal of Rs. 22.01 crore) originated by Satya MicroCapital Ltd. (Satya/SML; rated [ICRA]BBB(Stable)). 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.

A summary of the pool's performance after the May 2022 payout is provided in the table below.

Parameter	Uchiha Trust 03 2022
Months post securitisation	1
Pool amortisation	4.53%
SN Series A Amortisation	5.89%
Average monthly prepayment rate %	0.20%
Cumulative collection efficiency	99.79%
Loss cum 0+ dpd	0.43%
Loss cum 30+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of Excess Interest Spread, Overcollateralization and Cash Collateral.
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- Geographically concentrated pool with top three states contributing to around 56% of the pool principal.
- Performance of pool would remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile; further, pool performance would also be exposed to political and communal risks
- Pool performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic

Description of key rating drivers highlighted above

The first line of support for SN Series A in the transaction is in the form of a subordination/over-collateralisation of 8.00% of the pool principal (includes over-collateralisation). Further credit support is available in the form of an EIS of 13.11% for SN Series A. A CC of 12.00% of the initial pool principal provided by Satya, would act as further CE in the transaction. In the event of a shortfall in meeting the promised SN payouts during any month, the trustee will utilise the CC to meet the shortfall.

As per the transaction structure, the collections from the pool, after making the promised interest payouts to SN Series A, will be used to make the expected principal payouts to SN Series A. The entire principal repayment to SN Series A is promised on the scheduled maturity date. EIS amount shall be utilized for the purposes of prepaying the principal amounts due on SN Series A. Therefore, actual tenure of the SNs is expected to be shorter owing to such acceleration.

There are no overdues in the pool as on the cut-off date. The pool has high geographical concentration with the top 3 states (Bihar, Uttar Pradesh and Haryana) contributing ~56% to the initial pool principal amount. At the district level, the top 5 districts account for ~26% of the initial pool principal amount. The performance of the pool would be exposed to political and communal risks as well as natural calamities that may impact the income-generating capability of the borrower. Also, it would remain exposed to any fresh disruptions that may arise due to the pandemic.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 5.0-6.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 2.0-5.0% per annum.

Liquidity position

SN Series A: Strong

As per the transaction structure, only the interest amount is promised to the SN holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the SN investors.

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 could lead to a rating upgrade.

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 credit enhancement utilisation levels, could result in a rating downgrade.

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	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Satya MicroCapital Ltd. (formerly known as TFC Finvest Limited) is a Delhi-based NBFC, which was incorporated in 1995. SML started its microfinance operations in November 2016 by adopting the joint liability group (JLG) model with a fortnightly collection cycle. The company primarily offers JLG loans with ticket sizes in the median range of Rs. 25,000 to Rs. 50,000, and individual loans with ticket sizes in the range of Rs. 25,000-Rs. 2,00,000 at interest rates of 21-28%, along with a processing fee of 1%. SML focusses primarily on lending to women (husbands/sons above 18 years of age act as co-borrowers) aiming to start a new business or enhance an existing business. The operations are spread geographically with a presence in 193 districts across 21 states/UTs as on January 31, 2022.

In FY2021, the company reported a profit after tax (PAT) of Rs. 10.2 crore (Rs. 7.4 crore in FY2020) on AUM of Rs. 1,476.2 crore (Rs. 1,007.9 crore as on March 31, 2020). In 9MFY2022 (limited review), SML reported a net profit of Rs. 12.9 crore on AUM of Rs. 2,004.2 crore as on December 31, 2021 (as per limited review 9M financials).

Key financial indicators (audited; Ind AS)

Satya MicroCapital Ltd.	FY2019	FY2020	FY2021	9M FY2022
	Audited	Audited	Audited	LR*
Total income (Rs. crore)	101.7	208.6	267.2	254.7
Profit after tax (Rs. crore)	(0.3)	7.4	10.2	12.9
Gross AUM^ (Rs. crore)	621.7	1,007.9	1,476.2	2,004.2
Gross stage-3 (%)	0.0%	1.6%	1.5%	3.1%
Net stage-3 (%)	0.0%	0.6%	0.6%	1.4%

Source: Company, ICRA Research; All values and ratios as per ICRA's calculations

^Gross AUM is as per IGAAP; * LR – Limited review

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2023)					Chronology of Rating History for the past 3 years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 23, 2022	April 04, 2022			
1	Uchiha Trust 03 2022	SN Series A	20.25	20.25	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
SN Series A	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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Uchiha Trust 03 2022	SN Series A	March 2022	9.50%	December 2023	20.25	[ICRA]A(SO)

* Scheduled maturity date at transaction initiation; may change on account of prepayments

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Gaurav Mashalkar

+91 22 61143431

gaurav.mashalkar@icraindia.com

Sushant Vanmali

+91 22 6114 3436

sushant.vanmali@icraindia.com

Palak Bhatt

+91 22 61143450

palak.bhatt@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

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

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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