July 06, 2022

Save Microfinance Pvt. Ltd.: Provisional [ICRA]A-(SO) assigned to PTC Series A1 and Provisional [ICRA]BBB(SO) assigned to PTC Series A2 backed by microfinance loan receivables issued by Hodges 06 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Hodges 06 2022	PTC Series A1	17.07	Provisional [ICRA]A-(SO); Assigned
	PTC Series A2	1.01	Provisional [ICRA]BBB(SO); Assigned

**Instrument details are provided in Annexure-1*

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful

Rationale

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Save Microfinance Pvt. Ltd. (Save). The PTCs are backed by a pool of Rs. 21.65 crore microfinance loan receivables (underlying pool principal of Rs. 18.45 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 11.00% of the pool principal to be provided by Save (originator), (ii) subordination/over-collateralisation of 7.50% of the pool principal for PTC Series A1 and 2.00% of the pool principal for PTC Series A2 and (iii) the entire excess interest spread (EIS) in the structure, as well as the integrity of the legal structure. The ratings are subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, over-collateralisation/subordination and CC
- No overdue contracts in the pool as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing ~ 88% to the initial pool principal amount
- Performance of the pool would be exposed to any disruptions being caused by the Covid-19 pandemic
- Performance of the pool would also remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pool's performance would be exposed to political and communal risks

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of a subordination/over-collateralisation of 7.50% of the pool principal (includes the principal payable to PTC Series A2). After PTC Series A1 has been fully paid, over-collateralisation of 2.00% of the pool principal could be available for PTC Series A2. Further credit support is available in the form of an EIS of 9.71% for PTC Series A1 and 8.36% for PTC Series A2. A CC of 11.00% of the initial pool principal, to be provided by Save, would act as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

As per the transaction structure, PTC Series A2 payouts are completely subordinated to PTC Series A1. The collections from the pool, after making the promised interest payouts to PTC Series A1, will be used to make the expected principal payouts to PTC Series A1, followed by the expected interest payouts to PTC Series A2. The entire principal repayment to PTC Series A1 is promised on the scheduled maturity date. Post the maturity of PTC Series A1, interest payouts will be promised to PTC Series A2 and all excess cash flows, after meeting the promised interest payouts on PTC Series A2, will be passed on for the expected PTC Series A2 principal payouts. The entire principal repayment to PTC Series A2 is promised on the scheduled maturity date. The EIS available, after meeting the scheduled PTC payments, shall flow back to the originator on every payout date subject to the predefined triggers.

There are no overdues in the pool as on the cut-off date. The pool has high geographical concentration at the state level with the top state (Bihar) contributing ~71% to the initial pool principal amount. At the district level, the top 5 districts account for ~30% of the initial pool principal amount. The pool is characterised by weighted average seasoning of ~19 weeks and pre-securitisation amortisation of ~16% as on the cut-off date. 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 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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.0-5.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-9.0% per annum.

Liquidity position

Strong for PTC Series A1

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts liquidity to the transaction in the interim period. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC Series A1 investors.

Adequate for PTC Series A2

As per the transaction structure, after PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available CE are expected to be adequate to meet the promised payouts to the PTC Series A2 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 CE could lead to 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 CE utilisation levels, could result in a rating downgrade.

Analytical approach

The rating action is based on the analysis of the performance of Save's portfolio till March 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
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 a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) 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 company

Bihar-based Save Microfinance Pvt. Ltd. is a non-banking financial company-microfinance institution (NBFC-MFI) extending joint liability group (JLG) loans. It received its NBFC licence in October 2017 and commenced lending operations November 2018 onwards. The company provides microcredit to women borrowers for income-generating activities such as small business, handicrafts, trade and services, agriculture, etc. The loans are provided to women for agricultural and non-agricultural activities with a ticket size of Rs. 25,000-50,000. The tenure of the loans is 12-24 months with a rate of interest of 19% to 22%. Collections are made monthly and a processing fee of 1% is charged. The company also gives CGS loans at a rate of interest of 19.69%. The operations are spread geographically across 82 districts in 7 states as on March 31, 2022. In FY2022, the company reported a profit after tax (PAT) of Rs. 3.43 crore on assets under management (AUM) of Rs. 512.98 crore.

Key financial indicators (audited)

Save Microfinance Pvt. Ltd.	FY2021	FY2022
Accounting Standard	Ind-AS	Ind-AS
Total Income	24.20	62.22
PAT	0.50	3.43
AUM	203.17	512.98
Gross NPA (%)	2.13%	1.33%
Net NPA (%)	0.63%	0.32%

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	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
					July 06, 2022	-	-	-
1	Hodges 06 2022	PTC Series A1	17.07	17.07	**Provisional [ICRA] A-(SO)**	-	-	-
		PTC Series A2	1.01	1.01	**Provisional [ICRA] BBB(SO)**			

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	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
Hodges 06 2022	PTC Series A1	July 2022	10.00%	March 2024	17.07	Provisional [ICRA]A-(SO)
	PTC Series A2	July 2022	15.00%	March 2024	1.01	Provisional [ICRA]BBB(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

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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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