

July 25, 2022

Satya MicroCapital Ltd.: Ratings upgraded for PTCs issued under microloan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
CredAvenue Claymore 03 2021	PTC Series A1	30.62	NA	3.43	[ICRA]AA-(SO); Upgraded from [ICRA]A-(SO)
	PTC Series A2	0.33	NA	0.33	[ICRA]A+(SO); Upgraded from [ICRA]BBB+(SO)

*Instrument details are provided in Annexure-I

Rationale

ICRA has upgraded the ratings for the pass-through certificates (PTCs) issued under a securitisation transaction, CredAvenue Claymore 03 2021, backed by a pool of microfinance loan receivables originated by Satya MicroCapital Ltd. (SML; rated [ICRA]BBB(Positive)). The ratings upgrade is on account of the high amortisation in the pool, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts in the transaction. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool.

A summary of the performance of the pool till the May 2022 collection month (June 2022 payout) has been tabulated below.

Pool performance summary (till June 2022 payout month)

Particulars	CredAvenue Claymore 03 2021
Months post securitisation	14
Pool Amortisation	81.69%
PTC Series A1 amortisation	88.79%
PTC Series A2 amortisation	0.00%
Cumulative collection efficiency ¹	99.19%
Loss-cum-30+ dpd ² (% of initial pool)	1.52%
Loss-cum-90+ dpd ³ (% of initial pool)	0.45%
Cumulative cash collateral utilisation	0.00%
Cumulative prepayment rate	24.90%
Breakeven collection efficiency ⁴ for PTC Series A1	12.80%
Breakeven collection efficiency for PTC Series A2	18.19%
Cash collateral (% of balance pool)	43.69%
Principal subordination (% of balance pool) for PTC Series A1	43.68%
Principal subordination (% of balance pool) for PTC Series A2	38.22%

¹ (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

² Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 30 days, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 90 days, as a % of Initial Pool Principal

⁴ (Balance Cash flows payable to investor – CC available)/ Balance Pool Cash flows

Particulars	CredAvenue Claymore 03 2021
Excess interest spread (EIS) ⁵ (% of balance pool) for PTC Series A1	5.50%
EIS (% of balance pool) for PTC Series A2	5.23%

Key rating drivers and their description

Credit strengths

- High amortization of pool resulting in buildup of Cash Collateral (CC), Principal subordination and Excess Interest Spread cover available for the balance PTC payouts.
- The pool has exhibited healthy collections and low delinquencies

Credit challenges

- 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 performance of the pool has shown healthy cumulative collection efficiency of more than 99% as of the June 2022 payout month. The loss-cum-30+ days past due (dpd) stood at 1.52% for the pool as of the June 2022 payout month which has declined from a peak loss cum 30+ dpd of 19.84% as on June 2021 payout where the delinquency was high on account of second wave. Since there has been a steady decline in delinquencies. The breakeven collection efficiency of ~13% for PTC Series A1 and ~18% for PTC Series A2 is also below the actual collection level observed in the pool. Healthy collections and high pool amortisation of ~82% have led to high build-up of the CE in the pool. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the ratings to the current levels in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

Moreover, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

Performance of past rated pools: ICRA has rated 18 standalone PTC transactions of SML till date. The live pools, which have completed at least one payout, have shown high cumulative collection efficiency of more than 99% (including overdue collections) and low delinquencies with the loss-cum-90+ dpd below 1% with nil CC utilisation as of the June 2022 payout.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of the potential delinquencies, losses and prepayments in the pool. The assumptions for the mean shortfall and the coefficient of variation (CoV) are arrived at on the basis of the values observed in the analysis of the Originator's loan portfolio. Additionally, the assumptions may be adjusted to account for the prevalent macroeconomic situation as well as any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

⁵ (Pool Cash flows – Cash flows to PTC investors– Originator's residual share)/ Pool Principal outstanding

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 0.5-1.5% 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

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. 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 collections from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – Given the short balance tenure of the PTCs, the ratings are unlikely to be revised.

Negative factors – Given the short balance tenure of the PTCs, the ratings are unlikely to be revised.

Analytical approach

The rating action is based on the performance of the pool till May 2022 (collection month), the present delinquency levels and the CE available in the pool, and the performance expected over the balance tenure of the pool.

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-Rs. 75,000, and individual microloans with ticket sizes in the range of Rs. 45,000-Rs. 80,000 at interest rates of 21-26% (currently 24.4% on MFI loans), along with a processing fee of 1.5% for JLG loans and 3% for individual loans. SML primarily focusses on lending to women (husbands/sons above 18 years of age act as nominees) aiming to start a new business or enhance an existing business. As on March 31, 2022, the operations were spread geographically in 228 districts across 21 states/UTs. In FY2022, the company reported a profit after tax (PAT) of Rs. 33 crore (Rs. 10 crore in FY2021) on AUM of Rs. 2,884 crore as on March 31, 2022 (Rs. 1,476 crore as on March 31, 2021).

Key financial indicators (audited)

Satya MicroCapital	FY2020	FY2021	FY2022
Total Income	208.6	267.2	401.5
PAT	7.4	10.2	32.5
Gross AUM (IGAAP Valuation)	1007.9	1476.2	2884.0
Gross NPA (%)	1.6%	1.5%	3.3%
Net NPA (%)	0.6%	0.6%	2.5%

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

Sr. No.	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Initial 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 25, 2022	July 06, 2021	April 06, 2021		
1	CredAvenue Claymore 03 2021	PTC Series A1	30.62	3.43	[ICRA]AA-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-
		PTC Series A2	0.33	0.33	[ICRA]A+(SO)	[ICRA]BBB+(SO)	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-I: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate	Final Maturity Date*	Amount Rated (Rs. crore)	Current Rating
CredAvenue Claymore 03 2021	PTC Series A1	Mar-21	9.75%	Jan-23	3.43	[ICRA]AA-(SO)
	PTC Series A2		15.00%		0.33	[ICRA]A+(SO)

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

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.

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