

August 16, 2022

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

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
Northern Arc 2021 MFI Wiener	PTC Series A1	19.58	NA	0.77	[ICRA]AA+(SO); Upgraded from [ICRA]A(SO)
	PTC Series A2	0.45	NA	0.45	[ICRA]AA-(SO); Upgraded from [ICRA]A-(SO)
Northern Arc 2021 MFI Benoni	PTC Series A1	30.00	NA	2.41	[ICRA]AA-(SO); Upgraded from [ICRA]A-(SO)
	PTC Series A2	0.33	NA	0.33	[ICRA]AA-(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 the aforementioned securitisation transactions which are backed by pools 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 pools, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts in the transactions. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools.

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

Pool performance summary (till July 2022 payout month)

Particulars	Northern Arc 2021 MFI Wiener	Northern Arc 2021 MFI Benoni
Months post securitisation	13	13
Pool amortisation	75.26%	73.58%
PTC Series A1 amortisation	96.05%	91.95%
PTC Series A2 amortisation	0.00%	0.00%
Cumulative collection efficiency ¹	99.14%	99.07%
Loss-cum-30+ dpd ² (% of initial pool)	1.52%	1.72%
Loss-cum-90+ dpd ³ (% of initial pool)	0.66%	0.68%
Cumulative cash collateral utilisation	0.00%	0.00%
Cumulative prepayment rate	21.37%	20.38%
Breakeven collection efficiency ⁴ for PTC Series A1	0.00%	4.64%
Breakeven collection efficiency for PTC Series A2	2.01%	8.24%
Cash collateral (% of balance pool)	20.21%	22.71%
Principal subordination (% of balance pool) for PTC Series A1	85.94%	72.58%

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	Northern Arc 2021 MFI Wiener	Northern Arc 2021 MFI Benoni
Principal subordination (% of balance pool) for PTC Series A2	77.85%	68.80%
Excess interest spread (EIS) ⁵ (% of balance pool) for PTC Series A1	7.38%	7.45%
EIS (% of balance pool) for PTC Series A2	7.28%	7.35%

Key rating drivers and their description

Credit strengths

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

Credit challenges

- Performance of pools 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
- Pools' performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic

Description of key rating drivers highlighted above

The pools have shown healthy cumulative collection efficiency of more than 99% as of the July 2022 payout month. The loss-cum-30+ days past due (dpd) stood at 1.52% and 1.72% for Wiener and Benoni pools respectively as of the July 2022 payout month, down from their peaks of 8.21% and 7.85% as of the February 2022 payout. While both these pools saw a spike in delinquencies post the second wave the delinquencies have since declined steadily. The breakeven collection efficiency is low as compared to the actual collection levels observed in the pools. The healthy collections and the high pool amortisation of above 73% for both pools have led to significant build-up of the CE in the pools. The pools have seen nil CC utilisation while average prepayment rates in the pool have been moderate at ~1.7%. 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 pools. Any further rating action will be based on the performance of the pools and the availability of CE relative to ICRA's expectations.

Moreover, the performance of the pools would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the marginal borrower profile, the pools' 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 July 2022 payout.

Key rating assumptions

ICRA's cash flow analysis of asset-backed securitisation (ABS) transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for loss and the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, and also the performance and characteristics of the specific pool being evaluated. Additionally, the

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

assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pools are as given in the table below.

Sr. No	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Northern Arc 2021 MFI Wiener	1.0%-2.0%	6% - 9% p.a.
2	Northern Arc 2021 MFI Benoni	1.0%-2.0%	6% - 9% p.a.

Liquidity position: Superior for PTC Series A1 of Wiener and Strong for other tranches

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 –

For PTC Series A1 Northern Arc 2021 MFI Wiener:

As CC is fully covering the future PTC payouts, the ratings are unlikely to be upgraded

For PTC Series A2 of Northern Arc 2021 MFI Wiener and for PTC Series A1 and PTC Series A2 of Northern Arc 2021 MFI Benoni: Once the CC fully covers the future PTC payouts, the ratings are likely to be upgraded

Negative factors –

For PTC Series A1 Northern Arc 2021 MFI Wiener:

Given the short balance tenure of the PTCs, the ratings are unlikely to be downgraded.

For PTC Series A2 of Northern Arc 2021 MFI Wiener and for PTC Series A1 and PTC Series A2 of Northern Arc 2021 MFI Benoni:

Ratings would be under pressure, if collections show a sharp decline in near term.

Analytical approach

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

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 non-banking financial company (NBFC), which was incorporated in 1995. It 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 microfinance institution (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/Union Territories. In FY2022, the company reported a profit after tax (PAT) of Rs. 33 crore (Rs. 10 crore in FY2021) on assets under management (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 Ltd.	FY2020	FY2021	FY2022
Total income	208.6	267.2	401.5
PAT	7.4	10.2	32.5
Gross AUM (IGAAP valuation)	1,007.9	1,476.2	2,884.0
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

	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
					Aug 16, 2022	Sep 21, 2021	Jun 28, 2021		
1	Northern Arc 2021 MFI Wiener	PTC Series A1	19.58	0.77	[ICRA]AA+(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-
		PTC Series A2	0.45	0.45	[ICRA]AA-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

	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
					Aug 16, 2022	Sep 21, 2021	Jun 30, 2021		
2		PTC Series A1	30.00	2.41	[ICRA]AA-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)		

Northern Arc 2021 MFI Benoni	PTC Series A2	0.33	0.33	[ICRA]AA-(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)		
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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
Northern Arc 2021 MFI Wiener	PTC Series A1	Jun-21	9.55%	Dec-22	0.77	[ICRA]AA+(SO)
	PTC Series A2		14.50%	Jan-23	0.45	[ICRA]AA-(SO)
Northern Arc 2021 MFI Benoni	PTC Series A1	Jun-21	10.11%	Apr-23	2.41	[ICRA]AA-(SO)
	PTC Series A2		14.50%		0.33	[ICRA]AA-(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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Branches



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