

October 03, 2022

Satya MicroCapital Ltd.: Provisional [ICRA]A(SO) assigned to PTC Series A1 and Provisional [ICRA]A-(SO) to PTC Series A2 issued by Nimbus 2022 MFI Donna, backed by a pool of microloan receivables

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Nimbus 2022 MFI Donna	PTC Series A1	43.82	Provisional [ICRA]A(SO); Assigned
	PTC Series A2	0.76	Provisional [ICRA]A-(SO); Assigned

*Instrument details are provided in Annexure I

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

ICRA has assigned a Provisional [ICRA]A(SO) rating to the pass-through certificates (PTCs) Series A1 and a Provisional [ICRA]A-(SO) rating to PTC Series A2 under a securitisation transaction backed by microloan receivables originated by Satya MicroCapital Ltd. {SML; rated [ICRA]BBB (Positive)}. The PTCs are backed by a pool of Rs. 60.32-crore microloan receivables (underlying pool principal of Rs. 50.95 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 6.50% of the pool principal to be provided by SML (originator), (ii) subordination of 14.00% of the pool principal for PTC Series A1 and 12.50% 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, subordination and CC
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- Geographically concentrated pool with top 3 states contributing around 58% to 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's performance would be exposed to political and communal risks
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

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 14.00% of the pool principal (includes the principal payable to PTC Series A2). After PTC Series A1 has been fully paid, over-collateralisation of 12.50% of the pool principal could be available for PTC Series A2. Further credit support is available in the form of an EIS of 11.73% for PTC Series A1 and 11.46% for PTC Series A2. A CC of 6.50% of the initial pool principal, to be provided by SML, 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 payout 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 (to the extent of billed pool principal), after meeting the promised PTC Series A2 interest payouts, will be passed on for the expected PTC Series A2 principal payout. The entire principal repayment to PTC Series A2 is promised on the scheduled maturity date. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on a monthly basis.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that have a weighted average seasoning of ~5 months and pre-securitisation amortisation of ~19% as on the pool cut-off date. The pool is geographically concentrated with the top 3 states and the top 5 districts constituting ~58% and ~27%, respectively, of the pool principal.

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.

Past rated pools' performance: ICRA has rated 18 PTC transactions of SML. The live transactions have seen a collection efficiency of more than 98% with a loss-cum-90+ days past due (dpd) of sub-1% and nil CC utilisation as of the July 2022 payout.

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 4.5-5.5% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 3.0-9.0% 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 for PTC Series A1 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 for PTC Series A2 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 – 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 would result in 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 higher CE utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the analysis of the performance of SML’s portfolio till August 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 ratings are provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Power of Attorney
6. Chartered Accountant’s (CA) certificate
7. Any other documents executed for the transaction including for the CC

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 ratings, the provisional rating will be withdrawn in accordance with ICRA’s Policy on Provisional Ratings available at www.icra.in.

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. 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. 75,000, and individual microloans with ticket sizes in the range of Rs. 45,000-Rs. 80,000 at interest rates of 21-26%, along with a processing fee of 1% for JLG loans and 3% for individual loans. SML focuses 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 251 districts across 21 states/Union Territories as on June 30, 2022.

In FY2022, the company reported a profit after tax (PAT) of Rs. 32.50 crore (Rs. 10.19 crore in FY2021) on assets under management (AUM) of Rs. 2,884 crore (Rs. 1,476 crore as on March 31, 2021).

Key financial indicators (audited)

	FY2020	FY2021	FY2022
Total income	208.6	267.2	401.5
Profit after tax	7.4	10.2	32.5
Gross AUM[^]	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 values and ratios as per ICRA's calculations

[^]Gross AUM is as per IGAAP; 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	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
					October 03, 2022			
1	Nimbus 2022 MFI Donna	PTC Series A1	43.82	43.82	Provisional [ICRA]A(SO)	-	-	-
		PTC Series A2	0.76	0.76	Provisional [ICRA]A-(SO)			

Complexity level of the rated instruments

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Nimbus 2022 MFI Donna	PTC Series A1	September 2022	10.15%	May 2024	43.82	Provisional [ICRA]A(SO)
	PTC Series A2	September 2022	13.00%	May 2024	0.76	Provisional [ICRA]A-(SO)

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

For more information, visit www.icra.in

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