

October 14, 2022

Save Microfinance Pvt. Ltd.: Provisional [ICRA]A-(SO) assigned to PTC Series A1 backed by microfinance loan receivables issued by Indigo 011

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Indigo 011	PTC Series A1	20.00	Provisional [ICRA] A-(SO); Assigned

*Instrument details are provided in Annexure I

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

ICRA has assigned a provisional rating 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. 25.54-crore microfinance loan receivables (underlying pool principal of Rs. 22.22 crore).

The provisional rating is 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 10.0% of the pool principal to be provided by Save (originator), (ii) subordination/over-collateralisation of 10.0% of the pool principal for PTC Series A1 and (iii) the entire excess interest spread (EIS) in the structure, as well as the integrity of the legal structure. The rating is 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
- Pool has weighted average seasoning of ~29 weeks and weighted average amortisation of ~48% as on cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing ~86% 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 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

Description of key rating drivers highlighted above

According to the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A1 at the predetermined interest rate on the principal outstanding. The principal repayment to PTC Series A1 is promised on the final maturity date. During the tenure of PTC Series A1, the collections from the pool, after making the promised interest payouts, will be used to make the expected principal payouts to PTC Series A1. This principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. After the promised and scheduled payouts to the PTCs have been made every month, the EIS will be utilised for prepaying the principal of PTC Series A1 till the maturity of the transaction. Also, 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.

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation (i.e. subordination) of 10.0% of the pool principal. Further credit support is available in the form of an EIS of 9.3% and a CC of 10.0% of the initial pool principal to be provided by Save.

There are no overdue contracts 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 ~53% to the initial pool principal amount. At the district level, the top 5 districts account for ~21% 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. It would also remain exposed to any disruptions that may arise due to the pandemic.

Past rated pool(s): ICRA has rated one PTC (securitisation) transaction originated by Save in the past. The transaction has completed two payouts till September 2022 and has reported a cumulative collection efficiency of around 99%. The loss-cum-0+ was below 0.2% as of the September 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 4.0-5.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 2.4-9.0% per annum.

Liquidity position: Strong

According to 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.

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, would result in a rating downgrade.

Analytical approach

The rating action is based on the analysis of the performance of Save's portfolio till June 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 final 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

Save Microfinance Pvt. Ltd. (SMPL) is a Bihar-based 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 female borrowers for income-generating activities such as small business, handicrafts, trade and services, agriculture, etc. The loans are primarily 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 in the range of 19-22%. Collections are made on a monthly basis and a processing fee of 1% is charged. The company also gives Credit Guarantee Scheme (CGS) loans at a rate of interest of 19.69%.

The operations are spread geographically with a presence in 78 districts across 7 states as on June 30, 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. As of June 2022, Save's AUM stood at Rs. 612 crore.

Key financial indicators

	FY2021	FY2022
Total income	24.2	62.2
Profit after tax	0.5	3.4
Assets under management	203.2	513.0
Gross NPA	2.1%	1.3%
Net NPA	0.6%	0.3%

Source: Company, ICRA Research; 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
					October 14, 2022			
1	Indigo 011	PTC Series A1	20.00	20.00	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	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
Indigo 011	PTC Series A1	October 2022	10.75%	June 2024	20.00	Provisional [ICRA]A-(SO)

* Scheduled PTC 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:

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