October 31, 2022

Save Microfinance Pvt. Ltd.: Rating confirmed as final for PTCs backed by micro loan receivables

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

In July 2022, ICRA had assigned Provisional [ICRA]A-(SO) rating to pass-through certificate (PTCs) Series A1 issued by Hodges 06 2022. The PTCs are backed by loan receivables of a Rs. 21.65 crore pool (underlying pool principal of Rs. 18.45 crore) of micro finance loan contracts originated by Save Microfinance Private Limited (SMPL). Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool performance post September 2022 payout is shown in the table below:

Parameter	Nimbus 2022 MFI Auriga
Months post securitisation	3
Actual Pool amortisation	16.55%
PTC Series A1 amortisation	18.00%
PTC Series A2 amortisation	0.00%
Cumulative monthly prepayment rate %	1.79%
Cumulative collection efficiency	98.74%
Loss cum 0+ dpd	0.26%
Loss cum 90+ dpd	0.03%
Cumulative cash collateral (CC) utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of Excess Interest Spread, overcollateralization (subordination) and cash collateral
- No overdue contracts in the pool as on the cut-off date

Credit challenges

- High geographical concentration with 3 top state contributing to ~ 88% of the initial pool principal amount.
- Performance of pool would also remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; pool's performance would also be exposed to political and communal risks
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any.

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 were no overdues in the pool as on the cut-off date. The pool had 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 accounted for ~30% of the initial pool principal amount. The pool was 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 balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after considering the past performance of the originator's portfolio and the rated pools, as well as the performance and 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 at 6.0-9.0% per annum.

Liquidity position

PTC Series A1: 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. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC Series A1 investors.

PTC Series A2: Adequate

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 credit enhancement are expected to be adequate to meet the promised payouts to 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 credit enhancement would result in a ratings 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 credit enhancement utilisation levels, would result in a ratings downgrade.

Analytical approach

The rating action is based on the Trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

SAVE Microfinance Private Limited (SMPL) is an NBFC-MFI, extending the JLG Loans, based out of Bihar. SMPL received its NBFC license in October 2017 and commenced lending operations November 2018 onwards. The company provides micro credit to women borrowers for the purpose of income generating activities such as small business, handicrafts, trade and services, agricultural etc. The loans are provided primarily to women for agriculture and non-agriculture 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% to 22%. Collections are made monthly, and 1% processing fees is charged. The Company also gives 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 AUM of Rs. 512.98 crore. As of June 2022, Save has reported an AUM of Rs.612 crore.

Key financial indicators

SMPL	FY2021	FY2022
Total Income (Rs. crore)	24.20	62.22
Profit after tax (Rs. crore)	0.50	3.43
Assets under management (Rs. crore)	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	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					October 31, 2022	July 06, 2022	-	-
1	Hodges 06 2022	PTC Series A1	17.07	17.07	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-
		PTC Series A2	1.01	1.01	[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

** Backed by credit enhancement*

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 Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
Hodges 06 2022	PTC Series A1	July 2022	10.00%	March 2024	17.07	[ICRA]A-(SO)
	PTC Series A2	July 2022	15.00%	March 2024	1.01	[ICRA]BBB(SO)

*****_Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool_

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.

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