

November 14, 2022

Satya MicroCapital Ltd.: Rating upgraded for PTCs issued under microfinance loan 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
Howard Trust June 2021	PTC Series A1	76.54	NA	7.12	[ICRA]AA+(SO); Upgraded from [ICRA]A(SO)

*Instrument details are provided in Annexure I

Rationale

ICRA has upgraded the rating for the pass-through certificates (PTCs) issued under the securitisation transaction, Howard Trust June 2021, backed by a pool of microfinance loan receivables originated by Satya MicroCapital Ltd. {SML; rated [ICRA]BBB (Positive)}. The rating 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 such that they are entirely covered by the cash collateral (CC).

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

Pool performance summary (till October 2022 payout month)

Particulars	Howard Trust June 2021
Months post securitisation	16
Pool amortisation	81.64%
PTC Series A1 amortisation	90.70%
Cumulative collection efficiency ¹	98.85%
Loss-cum-30+ dpd ² (% of initial pool)	1.42%
Loss-cum-90+ dpd ³ (% of initial pool)	0.99%
Cumulative cash collateral (CC) utilisation	0.00%
Cumulative prepayment rate	22.81%
Breakeven collection efficiency ⁴ for PTC Series A1	0.00%
CC (% of balance pool)	54.46%
Principal subordination (% of balance pool) for PTC Series A1	54.42%
Excess interest spread (EIS ⁵ ; % of balance pool) for PTC Series A1	5.18%

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

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

Key rating drivers and their description

Credit strengths

- Significant amortisation of pool resulting in CC fully covering the future PTC payouts.
- Healthy collection efficiency and low delinquencies exhibited by the pool.

Credit challenges

- Not Applicable

Description of key rating drivers highlighted above

The pool has shown a healthy cumulative collection efficiency of ~99% as of the October 2022 payout month. The loss-cum-30+ days past due (dpd) stood at 1.42% as of the October 2022 payout month, down from the peak of 4.39% as of the February 2022 payout month. The healthy collections and the high amortisation of around 82% have led to the significant build-up of the CE in the pool. The pool has seen nil CC utilisation while the average monthly prepayment rates have been moderate at 1.6%. The pool saw a dip in the monthly collection efficiency (MCE) to ~90% in the November 2021 collection month on account of the festive season. However, the MCE has been above 95% since then. Also, while there was some increase in delinquencies due to the dip in collections, there has been a rollback in delinquencies post February 2022.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the rating to the current level 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 pool and the availability of CE relative to ICRA's expectations. The performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any. 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 20 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 98% (including overdue collections), low delinquencies with the loss-cum-90+ dpd below 1%, and nil CC utilisation as of the October 2022 payout.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of 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 taking into account 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.

Liquidity position: Superior

The liquidity of the rated transaction is expected to be superior as the CC covers the future payouts entirely.

Rating sensitivities

Positive/Negative factors – Rating is unlikely to be revised for the transaction as the CC is fully covering the future PTC payouts.

Analytical approach

The rating action is based on the performance of the pool till September 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 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. 2,884.00 crore (Rs. 1,476.20 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 Name	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
					November 14, 2022	November 02, 2021	July 05, 2021	-	-
1.	Howard Trust June 2021	PTC Series A1	76.54	7.12	[ICRA]AA+(SO)	[ICRA]A(SO)	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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Howard Trust June 2021	PTC Series A1	June 2021	11.00%	April 2023	7.12	[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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