

November 25, 2022

Satya MicroCapital Ltd.: Rating confirmed as final for PTCs backed by a pool of microfinance loan receivables

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Slytherin Trust September 2022	PTC Series A1	98.02	[ICRA]A(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In October 2022, ICRA had assigned Provisional [ICRA]A(SO) rating to Pass Through Certificates (PTCs) Series A1 issued by Slytherin Trust September 2022. The PTCs are backed by a pool of Rs. 129.59-crore microfinance loan receivables (underlying pool principal of Rs. 108.91 crore) originated by Satya MicroCapital Ltd. (SML; rated [ICRA]BBB(Positive)). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool performance after the October 2022 payouts is shown in the table below:

Parameter	Slytherin Trust September 2022
Months post securitisation	1
Pool amortisation	5.39%
PTC Series A1 amortisation	5.94%
Cumulative Prepayment rate	0.15%
Cumulative collection efficiency	99.17%
Loss-cum 0+ days past due (dpd)	0.94%
Loss cum 30+ dpd	0.00%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of Excess Interest Spread (EIS), Overcollateralization and Cash Collateral
- No overdue contracts in the pool as on the cut-off date

Credit challenges

- Lower seasoning and pre-securitisation amortisation as on pool cut-off date
- 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 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 of 10.00% of the initial pool principal. Further credit support is available in the form of an EIS of 11.28% and a CC of 10.00% of the initial pool principal. 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, the monthly pool collections shall be used to meet the promised interest payment to PTC Series A1 at the predetermined interest rate on the principal outstanding on each payout date and the promised principal repayment to the PTC Series A1 (to the extent of 60% of billed pool principal) followed by the expected principal payouts to PTC Series A1 (to the extent of 40% of billed pool principal). All prepayments would be passed on to PTC Series A1 till it is live. The EIS, if any, shall flow back to the residual beneficiary at every payout date after making all the expected and scheduled payouts to PTC Series A1.

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 ~16% as on the pool cut-off date. The pool is geographically concentrated with the top 3 states and the top 5 districts constituting ~45% and ~14%, respectively, of the pool principal.

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.

Past rated pools' performance: 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 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 4.25-5.25% 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

The liquidity of the rated transaction is expected to be strong, supported by the collections from the pool of contracts and the presence of a CC amounting to 10.00% of the initial pool principal amount. Assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the promised cash flows to the PTCs for a period of 17 months.

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 actions are 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	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	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 25, 2022	October 03, 2022			
1	Slytherin Trust September 2022	PTC Series A1	98.02	98.02	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-	-

Complexity level of the rated instruments

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Slytherin Trust September 2022	PTC Series A1	September 2022	11.00%	April 2024	98.02	[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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Palak Bhatt

+91 22 6114 3456

palak.bhatt@icraindia.com

Alwin Thankachan

+91 22 6114 3411

alwin.thankachan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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