December 08, 2022

Satin Creditcare Network Ltd.: Ratings confirmed as final for PTCs issued under a microfinance loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
KiPlatform M22 - 012	Series A1 PTC	34.19	[ICRA]A+(SO); provisional rating confirmed as final
	Series A2 PTC	1.22	[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 Series A1 Pass-Through Certificates (PTCs) and Provisional [ICRA]A-(SO) rating to Series A2 PTCs issued by KiPlatform M22 - 012. The PTCs are backed by receivables from a Rs. 45.29-crore (pool principal amount of Rs. 39.35 crore) pool of microfinance loan receivables originated by Satin Creditcare Network Ltd. (Satin/Originator; rated [ICRA]A-(Negative)/[ICRA]A1). 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 November 2022 payouts is shown in the table below:

Parameter	KiPlatform M22 - 012
Months post securitisation	1
Pool amortisation	8.46%
Series A1 PTC amortisation	9.79%
Cumulative collection efficiency	99.67%
Cumulative prepayment rate	1.70%
Loss-cum 0+ days past due (dpd)	0.48%
Loss cum 30+ dpd	0.12%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), principal subordination and cash collateral (CC)
- No overdue contracts as on the cut-off date
- Moderate seasoning (average at ~9 months) and amortisation (~37% pre-securitisation) profile as on the cut-off date

- One of the largest players in microfinance industry with established track record

Credit challenges

- High geographical concentration with top 3 states contributing around 62% of the pool principal as on the cut-off date
- Exposed to inherent credit risk in the asset class, given the unsecured nature of the product and the marginal borrower profile; performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables are assigned at par to the PTC investors. The collections from the pool, after making the promised interest payouts to Series A1 PTC, will be used to make the expected principal payouts to Series A1 PTC (to the extent of the monthly pool principal billed), followed by the expected interest payouts to Series A2 PTC. Post the maturity of Series A1 PTC, interest payouts will be promised to Series A2 PTC and excess cash flows, after meeting the promised Series A2 PTC interest payouts, will be passed on for the expected Series A2 PTC principal payout (to the extent of monthly pool principal billed). The entire principal repayment to Series A1 PTC and Series A2 PTC is promised on the scheduled maturity date (June 20, 2024). The balance cash flows, after making the promised and expected payments, would be passed on to the residual beneficiary.

The first line of support for Series A1 PTC in the transaction is in the form of a principal subordination of 13.10% of the initial pool principal (includes the principal payable to Series A2 PTC). After Series A1 PTC has been fully paid, over-collateralisation of 10.00% of the initial pool principal could be available for Series A2 PTC. Further credit support is available in the form of an EIS of 9.4% of the initial pool principal for Series A1 PTC (includes the interest payable to Series A2 PTC) and 8.9% of the initial pool principal for Series A2 PTC. After meeting the promised and expected payouts, the EIS will be passed on to the originator on a monthly basis. However, on the occurrence of predefined trigger events, the residual EIS every month shall be utilised for accelerating the principal payment due to Series A1 and Series A2 PTCs. A CC of 8.00% of the initial pool principal (Rs. 3.15 crore), provided by Satin, acts as further credit enhancement 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.

There were no overdues in the pool as on the cut-off date. The pool had moderate pre-securitisation amortisation at 37% as on the cut-off date. Geographical concentration was high with the top 3 states (Uttar Pradesh, Punjab and Madhya Pradesh) contributing 62% to the initial pool principal amount. At the district level, the top 5 districts accounted for 17% of the initial pool principal amount. The company had witnessed an increase in the delinquencies at the portfolio level following the onset of the Covid-19 pandemic, which has now started to moderate. The pool's performance would remain exposed to the inherent credit risk in the asset class. Furthermore, macroeconomic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower could have a bearing on the performance, given the marginal borrower profile.

Past rated pools: ICRA has rated 12 securitisation transactions backed by micro loan receivables for Satin. The live pools have reported satisfactory collections with nil CC utilisation up to the November 2022 payouts.

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 4.50-5.50% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 2.4-9.0% (with a mean of 6.0%) per annum

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the Series A1 PTC holders on a monthly basis while the entire principal amount is promised on the final maturity date of the transaction. After Series A1 PTC is fully paid, the interest amount is promised to the Series A2 PTC holders on a monthly basis and the entire principal amount is promised on the final maturity date of the transaction. The cash flows from the pool and the available credit enhancement 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 credit enhancement would result in 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 credit enhancement utilisation levels, would result in a rating 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	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the Originator

Satin Creditcare Network Ltd. (Satin), which was set up in 1990 to provide individual business loans to urban shopkeepers, started providing group lending services to the rural poor in 2008. It was registered with the Reserve Bank of India (RBI) as a deposit-taking non-banking financial company (NBFC) under the name, Satin Leasing and Finance Company Limited. Following its conversion into a public limited company in 1994, the company was renamed Satin Creditcare Network Ltd. in 2000. It stopped accepting public deposits from November 2004 and the RBI changed its classification to Category B (nondeposit taking) from Category A (deposit taking) in February 2009 and converted it into an NBFC-microfinance institution (NBFC-MFI) in November 2013. The company's microfinance operations are based on the Grameen Bank joint liability group (JLG) model and were spread across 1,039 branches in the country, as on September 30, 2022, on a standalone basis and 1,237 branches for the Group as a whole.

Satin is listed on the National Stock Exchange of India Limited (NSE), Bombay Stock Exchange (BSE) and Calcutta Stock Exchange. As on September 30, 2022, the company's consolidated managed portfolio stood at Rs. 7,575 crore. It reported a net loss of Rs. 153 crore in H1 FY2023 against a net profit of Rs. 21 crore in FY2022 at the consolidated level.

Key financial indicators

	FY2021	FY2022	H1 FY2023*
Total income	1,374	1,381	706
Profit after tax	(14)	21	(153)
Gross loan portfolio	8,379	7,617	7,575
Gross stage 3	8.4%	8.0%	3.9%
Net stage 3	4.7%	2.4%	1.9%

*Source: Company, ICRA Research; *Limited review numbers and ratios might change, subject to notes to accounts; All ratios and values are as per ICRA's calculations; Net stage 3 (%) = Net stage 3 / Gross loan book; Gross and net stage 3 ratios are on standalone basis*
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
					Dec 08, 2022	Oct 28, 2022	-	-	-
1	KiPlatform M22 - 012	Series A1 PTC	34.19	34.19	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	-
		Series A2 PTC	1.22	1.22	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 PTC	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
KiPlatform M22 - 012	Series A1 PTC	October 2022	11.50%	June 2024	34.19	[ICRA]A+(SO)
	Series A2 PTC		13.50%		1.22	[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.

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