

April 21, 2023

## Satya MicroCapital Ltd.: Rating upgraded for SN Series A 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
Uchiha Trust 03 2022	SN Series A	20.25	NA	3.16	[ICRA]AA-(SO); Upgraded from [ICRA]A(SO)

\*Instrument details are provided in Annexure I

### Rationale

The securitisation notes (SNs) are backed by a pool of microfinance loan receivables originated by Satya MicroCapital Ltd. {Satya; rated [ICRA]BBB(Positive)}. The rating has been upgraded on account of the healthy amortisation and healthy performance, which have led to the build-up of the credit enhancement (CE) cover over the future SN payouts. The breakeven collection efficiency is significantly lower compared to the actual collection levels observed in the pool.

### Pool performance summary

A summary of the performance of the pool till the March 2023 collection month (April 2023 payout month) has been tabulated below.

Parameter	Uchiha Trust 03 2022
Months post securitisation	12
Pool amortisation	69.0%
SN amortisation – SN Series A	84.4%
Cumulative collection efficiency <sup>1</sup>	98.6%
Loss-cum-0+ (% of initial pool principal) <sup>2</sup>	2.1%
Loss-cum-30+ (% of initial pool principal) <sup>3</sup>	2.0%
Loss-cum-90+ (% of initial pool principal) <sup>4</sup>	1.6%
Cumulative prepayment rate	15.9%
Breakeven collection efficiency <sup>5</sup> – SN Series A	7.6%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.0%
CC available (as % of balance pool principal)	38.8%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal) <sup>6</sup> – SN Series A	7.3%
Principal subordination (% of balance pool principal) – SN Series A	53.7%

### Key rating drivers

#### Credit strengths

- Healthy amortisation of SNs, resulting in build-up of credit enhancement (CE) cover available for the balance SN payouts
- Healthy collections and low delinquency levels observed in the pool

<sup>1</sup> Cumulative collections till date / Cumulative billings till date + Opening overdues

<sup>2</sup> Principal outstanding (POS) on contracts aged 0+ dpd + Overdues / Initial POS on the pool

<sup>3</sup> POS on contracts aged 30+ dpd + Overdues / Initial POS on the pool

<sup>4</sup> POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

<sup>5</sup> It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – CC available) / Balance pool cash flows

## Credit challenges

- High geographical concentration at state level with top 3 states having ~57% share in the balance pool
- 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 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 performance of the pool has been healthy with a cumulative collection efficiency of ~99% as of the April 2023 payout month. The loss-cum-90+ days past due (dpd) is also low at 1.55% as of the April 2023 payout month. There has been no CC utilisation in the transaction till the April 2023 payout. The prepayment rate in the pool has been moderate. Healthy collections and healthy pool amortisation in the pool have led to the build-up of the CE in the pool. The breakeven collection efficiency at the current level is significantly lower compared to the actual collection level. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the rating in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

The balance pool has high geographical concentration at the state level with the top 3 states accounting for ~57% of the same. The pool's performance would remain exposed to macro-economic shocks/business disruptions. Given the marginal borrower profile, its performance would also be exposed to natural calamities and political and communal risks.

**Performance of past rated pools:** ICRA has rated 20 standalone pass-through certificate (PTC) transactions of Satya 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 1.5%, and nil CC utilisation as of the March 2023 payout.

## Key rating assumptions

ICRA's cash flow analysis 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 the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pool, 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 1.75-2.75% 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

As per the transaction structure, only the interest amount is promised to the SN holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available CE are expected to be comfortable to meet the promised payouts to the SN investors.

## Rating sensitivities

**Positive factors** – The rating is likely to be upgraded once the CC covers the future SN payouts.

**Negative factors** – The rating would be under pressure, if collections show a sharp decline in near term

## Analytical approach

The rating action is based on the pool's performance till the March 2023 collection month, the present delinquency-level analysis of the performance of Satya's portfolio till December 2022, the performance expected over the balance tenure of the pool and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the originator

Satya MicroCapital Ltd. (formerly known as TFC Finvest Limited) is a Delhi-based non-banking financial company (NBFC), which was incorporated in 1995. It started its microfinance operations in November 2016 by adopting the joint liability group (JLG) model with fortnightly and monthly collection cycles. The company primarily offers JLG loans with ticket sizes in the median range of Rs. 25,000-75,000, and individual microloans with ticket sizes in the range of Rs. 45,000-80,000 at interest rates of 21-26% (currently 25% on microfinance institution (MFI) loans), along with a processing fee of 1.5% for JLG loans and 3% for individual loans. Satya mainly focusses on lending to women (husbands/sons above 18 years of age act as nominees) aiming to start a new business or enhance an existing business. As on December 31, 2022, the operations were spread geographically in 267 districts across 22 states/Union Territories.

In FY2022, the company reported a profit after tax (PAT) of Rs. 32.5 crore (Rs. 10.2 crore in FY2021) on assets under management (AUM) of Rs. 2,884 crore as on March 31, 2022 (Rs. 1,476 crore as on March 31, 2021). In 9M FY2023, it reported a net profit of Rs. 14.0 crore on an AUM of Rs. 3,419 crore as on December 31, 2022.

## Key financial indicators (audited)

	FY2020	FY2021	FY2022	9M FY2023*
	Ind AS	Ind AS	Ind AS	Ind AS
Net interest income	81.4	116.7	162.2	185.2
Profit after tax (PAT)	7.4	10.2	32.5	14.0
Gross AUM (IGAAP valuation)	1,008	1,476	2,884	3,419
Gross NPA	1.6%	1.5%	3.3%	1.1%
Net NPA	0.6%	0.6%	2.5%	0.5%

Source: Company, ICRA Research; All ratios as per ICRA's calculations  
Amount in Rs. crore; \* 9M FY2023 financials are limited review financials

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Sr. No.	Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2023		Date & Rating in FY2022
					Apr 21, 2023	May 23, 2022	Apr 04, 2022*		
1	Uchiha Trust 03 2022	SN Series A	20.25	3.16	[ICRA]AA-(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-

\*Provisional rating assigned

## Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Uchiha Trust 03 2022	SN Series A	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
<b>Uchiha Trust 03 2022</b>	SN Series A	March 2022	9.50%	December 2023	3.16	[ICRA]AA-(SO)

\* Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool

#### Annexure II: List of entities considered for consolidated analysis

Not applicable

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Sachin Joglekar**

+91 22 6114 3470

[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

**Gaurav Mashalkar**

+91 22 6114 3431

[gaurav.mashalkar@icraindia.com](mailto:gaurav.mashalkar@icraindia.com)

**Vishal Oza**

+91 22 6114 3432

[vishal.oza@icraindia.com](mailto:vishal.oza@icraindia.com)

**Tina Parekh**

+91 22 6114 3455

[tina.parekh@icraindia.com](mailto:tina.parekh@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6169 3304

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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