

July 06, 2023

Save Microfinance Pvt. Ltd. : Provisional [ICRA]A-(SO) assigned to Series A1(a)PTC and Provisional [ICRA]BBB+(SO) assigned to Series A1(b)PTC backed by a pool of microloan receivables issued by Sita 06 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sita 06 2023	Series A1(a) PTC	16.32	Provisional [ICRA]A-(SO); Assigned
	Series A1(b) PTC	1.53	Provisional [ICRA]BBB+(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Save Microfinance Pvt. Ltd. (Save). The PTCs are backed by a pool of Rs. 24.55-crore microfinance loan receivables (underlying pool principal of Rs. 20.41 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts and the credit enhancement available in the form of (i) a cash collateral (CC) of 5.0% of the pool principal to be provided by the originator, (ii) subordination/over-collateralisation (OC) of 20.0% of the pool principal for Series A1(a)PTC and 12.5% for Series A1(b)PTC and (iii) excess interest spread (EIS) of 12.7% of the pool principal for Series A1(a) PTC and 11.2% of the pool principal for Series A1(b) PTC, as well as the integrity of the legal structure. The provisional ratings are subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, OC and CC
- No overdue contracts in the pool as on the cut-off date
- Pool has weighted average seasoning of ~27 weeks and amortisation of ~20% as on cut-off date

Credit challenges

- High geographical concentration with top state (Bihar) contributing ~75% to the initial pool principal amount
- Exposed to inherent credit risk associated with the unsecured nature of the asset class, pool's performance would remain exposed to any macro-economic shocks/business disruptions
- Performance of the 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 be exposed to political and communal risks

Description of key rating drivers highlighted above

The first line of support for Series A1(a) PTC in the transaction is in the form of a subordination of 20.0% of the pool principal {includes OC and principal payable to Series A1(b) PTC}. After Series A1(a) PTC has been fully paid, a subordination of 12.5% of

the pool principal (includes OC) will be available for Series A1(b) PTC. Further credit support is available in the form of an EIS of 12.7% for Series A1(a) PTC and 11.2% for Series A1(b) PTC. A CC of 5.0% of the initial pool principal, to be provided by Save, would act 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 same.

As per the transaction structure, Series A1(b) PTC payouts are completely subordinated to Series A1(a) PTC payouts until October 17, 2024. The collections from the pool will be used for making the promised interest payouts to Series A1(a) and Series A1(b) PTCs on a pari-passu basis. After making the promised interest payouts to Series A1(a) and A1(b) PTCs, collections will be used to make the expected principal payouts to Series A1(a) PTC till its redemption followed by the expected principal payout to Series A1(b) PTC. The entire principal repayment to Series A1(a) and Series A1(b) PTCs is promised on the scheduled maturity date of the respective tranches.

From October 18, 2024, till the final maturity date, the collections from the pool will be used for making the promised interest payouts to Series A1(a) and Series A1(b) PTCs on a pari-passu basis. Thereafter, collections will be utilised for the redemption of Series A1(a) and A1(b) PTCs on a pari-passu basis. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on a monthly basis.

All prepayment amounts will be passed on to Series A1(a) PTC till October 17, 2024. From October 18, 2024, the prepayment amounts will be passed on to Series A1(a) and Series A1(b) PTCs on a pari-passu basis for the respective amounts outstanding till complete redemption.

There were no overdues in the pool as on the cut-off date. The pool consists of loans that are moderately seasoned with a weighted average seasoning of 27 weeks and pre-securitisation amortisation of 20.1%. The pool is geographically concentrated with the top state (Bihar) constituting 75.3% of the initial pool principal. The performance of the pool will be exposed to political and communal risks and natural calamities that may impact the income-generating capability of the borrower.

Performance of past rated pools: ICRA has rated four PTC (securitisation) transactions originated by Save in the past. For the live pools, the cumulative collection efficiency was reported at ~99% and delinquencies in the 0+ days past due (dpd) bucket were below 0.1% as of the May 2023 payout month. There has been nil CC utilisation in the transactions till date.

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 4.0-5.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 2.4-9.0% per annum.

Liquidity position:

Series A1(a) PTC: Strong

As per the transaction structure, only the interest amount is promised monthly to the Series A1(a) PTC while the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the Series A1(a) PTC investors.

Series A1(b) PTC: Adequate

As per the transaction structure, only the interest amount is promised to the Series A1(b) PTC holders on a monthly basis while 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 the Series A1(b) 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. An improvement in the credit profile of the servicer would also be important for upgrading the ratings of the PTCs.

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 analysis of the performance of Save's portfolio till March 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned ratings are provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Power of Attorney
6. Chartered Accountant's (CA) certificate
7. Any other documents executed for the transaction including for the CC

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional ratings would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the ratings, the provisional ratings will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

Bihar-based Save Microfinance Pvt. Ltd. is a non-banking financial company-microfinance institution (NBFC-MFI), which provides joint liability group (JLG) loans. It received its NBFC licence in October 2017 and commenced lending operations from November 2018. The company provides microcredit to women borrowers for income-generating activities such as small

business, handicrafts, trade and services, agriculture, etc. The loans are provided to women for agricultural and non-agricultural activities with a ticket size of Rs. 15,000-50,000. The tenure of the loans is 12-24 months with a rate of interest of 19.7-21.69%. Collections are made on a monthly basis and a processing fee of 1% is charged. The company also gives credit guarantee scheme (CGS) loans at a rate of interest of 19.69%. The operations are spread geographically with a presence in 102 districts across 7 states as on March 31, 2023. In FY2023, the company reported a profit after tax (PAT) of Rs. 17.21 crore on assets under management of Rs. 986.52 crore.

Key financial indicators (audited)

Save Microfinance Pvt. Ltd.	FY2021	FY2022	FY2023
Total income	24.20	62.47	169.08
Profit after tax	0.50	3.53	17.21
Assets under management	203.17	513.20	986.52
Gross non-performing assets (NPA)	2.13%	1.26%	0.91%
Net NPA	0.63%	0.26%	0.14%

Amount in Rs. crore; All ratios as per ICRA's calculations

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 (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					July 06, 2023			
1	Sita 06 2023	Series A1(a) PTC	16.32	16.32	Provisional [ICRA]A-(SO)	-	-	-
		Series A1(b) PTC	1.53	1.53	Provisional [ICRA]BBB+(SO)			

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1(a) PTC	Moderately Complex
Series A1(b) 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
Sita 06 2023	Series A1(a) PTC	June 2023	12.75%	March 2025	16.32	Provisional [ICRA]A-(SO)
	Series A1(b) PTC	June 2023	14.50%	March 2025	1.53	Provisional [ICRA]BBB+(SO)

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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