

August 08, 2023

## Satya MicroCapital Ltd.: Rating confirmed as final for PTCs backed by microfinance loan receivables issued by Nile 05 2023

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Nile 05 2023	PTC Series A1	42.86	[ICRA]A+(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

In June 2023, ICRA had assigned a Provisional [ICRA]A+(SO) rating to PTC Series A1 issued by Nile 05 2023. The pass-through certificates (PTCs) are backed by a pool of Rs. 57.19-crore microfinance loan receivables (underlying pool principal of Rs. 47.62 crore) originated by Satya MicroCapital Ltd. {Satya; rated [ICRA]BBB+(Stable)}. 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 performance of the pool after the July 2023 payout month has been provided below.

Parameter	Nile 05 2023
Months post securitisation	1
Pool amortisation	7.57%
PTC Series A1 amortisation	8.42%
Cumulative collection efficiency	99.65%
Loss-cum-0+ dpd	0.41%
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 (CE) in the form of excess interest spread (EIS), subordination and cash collateral (CC)
- Absence of overdue contracts as on pool cut-off date

#### Credit challenges

- Geographically concentrated pool at state level with the top three states having ~63% share in the pool as on 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/over-collateralisation of 10.00% of the pool principal. Further credit support is available in the form of an EIS of 13.69% for PTC Series A1. A CC of 9.00% of the initial pool principal, to be provided by Satya, would act as further CE 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.

As per the transaction structure, the collections from the pool, after making the promised interest payouts to PTC Series A1, will be used to make the expected principal payouts to PTC Series A1 (to the extent of pool principal billing). The entire principal repayment to PTC Series A1 is promised on the scheduled maturity date. The residual cash flows available, after making the promised and expected payments, will flow back to the originator on a monthly basis. However, if the 90+ days past due (dpd) in any month is above 5% of the initial pool principal, the EIS for the month will flow to the PTC Series A1 investor.

There were no overdues in the pool as on the cut-off date. The pool consists of loans that have a weighted average seasoning of ~4 months and pre-securitisation amortisation of ~18% as on the pool cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top 3 states and the top 5 districts constituting ~63% and ~21%, respectively, of the pool principal as on the cut off date.

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.

**Past rated pools performance:** Till date, ICRA has rated 21 standalone PTC transactions of Satya. The live pools, which have completed at least two payouts, have shown high cumulative collection efficiency of more than 97% (including overdue collections), low delinquencies with the loss-cum-90+ dpd below 2.5%, and nil CC utilisation as of the July 2023 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 4.5-5.5% 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 monthly to PTC Series A1 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 PTC investors. The available CC would meet the promised interest payouts for the PTCs for a period of twelve 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 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the originator

Satya MicroCapital Ltd. is a Delhi-based non-banking financial company (NBFC), which was incorporated in 1995. It started its microfinance operations in FY2017 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 24-26%, along with a processing fee of 0.75-0.50% 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. Typically, the average tenure of loans under JLG is slightly over two years. As on March 31, 2023, the operations were spread geographically in 279 districts across 22 states/Union Territories.

In FY2023, the company reported a profit after tax (PAT) of Rs. 55.1 crore (provisional) against Rs. 32.5 crore in FY2022. Its assets under management (AUM) grew 62% to Rs. 4,684 crore (after write-offs and sale to an asset reconstruction company) as on March 31, 2023.

## Key financial indicators (audited-Ind-AS)

	FY2021	FY2022	FY2023*
Net interest income	116.7	162.2	275.9
Profit after tax	10.2	32.5	55.1
Gross AUM (IGAAP valuation)	1,476	2,884	4,684
Gross NPA (%)	1.5%	3.3%	1.3%
Net NPA (%)	0.6%	2.5%	0.4%

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; 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 (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
					August 08, 2023	June 14, 2023			
1	Nile 05 2023	PTC Series A1	42.86	42.86	[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	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Nile 05 2023	PTC Series A1	June 2023	9.95%	February 2025	42.86	[ICRA]A+(SO)

\* Scheduled PTC 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](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 6114 3406

[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)

## 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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## ICRA Limited



### Registered Office

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



### Branches



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