August 25, 2023

Satin Creditcare Network Ltd.: Ratings confirmed as final for PTCs backed by microfinance loan receivables issued by Orchard 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)^	Rating Action
Orchard 2022	Series A1 PTC	74.44	[ICRA]AA-(SO); provisional rating confirmed as final
	Series A2 PTC	2.57	[ICRA]A-(SO); provisional rating confirmed as final

^Provisional rating amount was Rs. 74.97 crore and Rs. 2.59 crore for Series A1 and Series A2 PTCs respectively. Actual PTC issuance was lower
**Instrument details are provided in Annexure I*

Rationale

In March 2023, ICRA had assigned Provisional [ICRA]AA-(SO) rating to Series A1 Pass-Through Certificates (PTCs) and Provisional [ICRA]A-(SO) rating to Series A2 PTCs issued by Orchard 2023. The PTCs are backed by a pool of Rs. 85.56 crore (principal amount; receivables of Rs. 103.64 crore) microfinance loan receivables originated by Satin Creditcare Network Ltd. (Satin/Originator; rated [ICRA]A-(Stable)/[ICRA]A1).

During the provisional rating assignment, the pool principal was Rs. 86.18 crore while the pool receivables were Rs. 104.39 crore. However, the pool underwent a downward revision of 0.72% of the original pool principal due to deletion of certain contracts. There has been no addition of contracts or change in transaction's structure or terms. 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 July 2023 payouts is shown in the table below:

Parameter	Orchard 2022
Months post securitisation	4
Pool amortisation	17.92%
Series A1 PTC amortisation	25.38%
Series A1 PTC amortisation	0.00%
Cumulative collection efficiency[1]	99.73%
Cumulative prepayment rate [2]	3.38%
Loss-cum-0+ days past due (dpd)[3]	0.48%
Loss cum 30+ dpd[4]	0.24%
Loss cum 90+ dpd[5]	0.03%
Cumulative cash collateral utilisation	0.00%

[1] *Cumulative collections / (Cumulative billings + opening overdue at the time of securitization)*
[2] *Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal*
[3] *POS on contracts aged 0+ dpd / POS on the pool at the time of securitization*
[4] *POS on contracts aged 30+ dpd / POS on the pool at the time of securitization*
[5] *POS on contracts aged 90+ dpd / POS on the pool at the time of securitization*

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of excess interest spread (EIS), over-collateralisation and cash collateral (CC)
- Average seasoning of ~4 months and average pre-securitisation amortisation of ~15% as on the cut-off date
- One of the largest players in microfinance industry with an established track record

Credit challenges

- High geographical concentration with top 3 states contributing around 82% to the initial pool principal
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; performance of the pool could remain exposed to 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

According to the transaction structure, the loan pool receivables were 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. The residual cash flows from the pool would be used for the payment of the Series A1 PTC principal; no residual cash flow will be paid to the residual beneficiary until the payment of Series A1 PTC in full. Following the complete repayment of Series A1 PTC, the residual cash flows, after making the promised and expected payouts, would be used for the prepayment of PTC Series A2. The actual tenure of the PTCs is expected to be shorter owing to such acceleration.

The first line of support for Series A1 PTC in the transaction is in the form of a principal subordination of 13.00% 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 EIS. A CC of 10.00% of the initial pool principal (Rs. 8.56 crore), to be provided by Satin, 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.

There were no overdues in the pool as on the cut-off date. The pool had average pre-securitisation amortisation of 15% as on the cut-off date. The geographical concentration was high with the top 3 states (Uttar Pradesh, Bihar and Odisha) contributing ~82% to the initial pool principal amount. At the district level, the top 5 districts accounted for 14.1% of the initial pool principal amount. The company had witnessed an increase in delinquencies at the portfolio level following the onset of the Covid-19 pandemic, which has now moderated. Given the unsecured nature of the asset class, performance of the pool could remain exposed to macroeconomic shocks/business disruptions. The performance of the pool would also be exposed to political and communal risks as well as natural calamities that may impact the income-generating capability of the borrower.

Past rated pools: ICRA has live ratings on 30 securitisation transactions backed by microfinance loan receivables for Satin. The live pools, which have completed at least three payouts, have reported healthy collections with nil CC utilisation up to the July 2023 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 4.75-5.75% 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 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	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 (non-deposit 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) modeland were spread across 1,078 branches in the country, as on March 31, 2023, on a standalone basis, and 1,287 branches for the Group as a whole.

Satin is listed on National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange (BSE). As on March 31, 2023, the company's consolidated managed portfolio stood at Rs. 9,115 crore. It reported a net profit of Rs. 5 crore in FY2023 against a net profit of Rs. 21 crore in FY2022 at the consolidated level.

Key financial indicators (consolidated; audited)

Consolidated	FY2021	FY2022	FY2023
Total income	1,374^	1,381	1,559
Profit after tax	(14)	21	5
Gross AUM	8,379	7,617	9,115
Gross stage 3	8.4%	8.0%	3.3%
Net stage 3	4.7%	2.4%	1.5%

Source: Company, ICRA Research; 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
^Adjusted for fair value losses

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Aug 25, 2023	Mar 23, 2023	-	-
1	Orchard 2022	Series A1 PTC	74.97	74.44	**[ICRA]AA-(SO)**	**Provisional [ICRA]AA-(SO)**	-	-
		Series A2 PTC	2.59	2.57	**[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
Orchard 2022	Series A1 PTC	March 2023	11.00%	January 2025	74.44	[ICRA]AA-(SO)
	Series A2 PTC		14.10%		2.57	[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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