

September 04, 2023

Satin Creditcare Network Ltd.: Provisional [ICRA]AA-(SO) assigned to Series A1(a) PTC and Provisional [ICRA]A(SO) assigned to Series A1(b) PTC backed by microfinance loan receivables issued by KEDAR 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
KEDAR 2023	Series A1(a) PTC	31.94	Provisional [ICRA]AA-(SO); Assigned
	Series A1(b) PTC	2.35	Provisional [ICRA]A(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No ratings 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 Satin Creditcare Network Ltd. (Satin; rated [ICRA]A- (Stable)/[ICRA]A1). The PTCs are backed by a pool of Rs. 39.19-crore (principal amount; receivables of Rs. 47.23 crore) microfinance loan receivables.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts. Credit enhancement (CE) is available in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal to be provided by Satin (originator), (ii) principal subordination (18.50% of the initial pool principal for Series A1(a) PTC and 12.50% for Series A1(b) PTC), and (iii) excess interest spread (EIS) of 12.43% of the initial pool principal for Series A1(a) PTC and Series A1(b) PTC in the structure, as well as the integrity of the legal structure. The provisional ratings are subject to the fulfilment of all the conditions under the structure, due diligence audit of the pool, review by ICRA of the documentation pertaining to the transaction, and the furnishing of a legal opinion on the transaction to ICRA by Satin.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, over-collateralisation and CC
- Average seasoning of ~6 months and average pre-securitisation amortisation of ~20% as on the cut-off date
- One of the larger players in microfinance industry with an established track record

Credit challenges

- High geographical concentration with top 3 states contributing around 70% to the initial pool principal
- 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 be exposed to political and communal risks
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The collections from the pool will be used to make the promised interest payouts (at the predetermined yield and on pari-passu basis to the holders of Series A1(a) PTC and Series A1(b) PTC on the outstanding PTC principal) on each payout date. The final maturity date is May 09, 2025 for Series A1(a) PTC and May 10, 2025 for Series A1(b) PTC.

Till December 10, 2024, the collections from the pool, on each payout date, will be used for making the promised interest payouts to the PTC Series A investors (i.e. interest at predetermined yield to be paid to PTC Series A1(a) and PTC Series A1(b) on a pari-passu basis). After making the promised interest payouts, the collections will be used to make the expected principal payouts to PTC Series A1(a) till its redemption followed by the expected principal payouts to PTC Series A1(b). The entire principal repayment to PTC Series A1(a) and PTC Series A1(b) is promised on the scheduled maturity date of the respective tranches.

From December 11, 2024 till the final maturity date, the collections from the pool will be used for making the promised interest payouts to PTC Series A1(a) and PTC Series A1(b) on a pari-passu basis. After making the promised interest payouts, the collections will be utilised for the redemption of PTC Series A1(a) and A1(b) 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.

The first line of support for Series A1(a) PTC in the transaction is in the form of a principal subordination of 18.50% of the initial pool principal (includes the principal payable to Series A1(b) PTC). After Series A1(a) PTC has been fully paid, over-collateralisation of 12.50% of the initial pool principal would be available for Series A1(b) PTC. Further credit support is available in the form of the EIS of 12.43% of the initial pool principal for Series A1(a) PTC and Series A1(b) PTC. A CC of 5.00% of the initial pool principal (Rs. 1.96 crore), to be provided by Satin, 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 same.

There are no overdues in the pool as on the cut-off date. The pool has average pre-securitisation amortisation of 20.14% as on the cut-off date. It has high geographical concentration with the top 3 states (Tamil Nadu, Karnataka and Gujarat) contributing ~70% to the initial pool principal amount. At the district level, the top 5 districts account for 23.28% 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. 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: 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 until 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 4.50-5.50% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 2.40-9.00% (with a mean of 6.00% per annum).

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised monthly to Series A1(a) PTC and Series A1(b) PTC on a pari-passu 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 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 ratings 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 CE utilisation levels, would result in a ratings downgrade.

Analytical approach

The rating action is based on the analysis of the performance of Satin's portfolio till June 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover 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. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

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 rating 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 rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

Satin Creditcare Network Ltd. (Satin), 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) model and were spread across 1,096 branches in the country as on June 30, 2023 on a standalone basis and 1,310 branches for the Group as a whole.

Satin is listed on the National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange (BSE). As on June 30, 2023, the company's consolidated assets under management (AUM) stood at Rs. 9,535 crore. On a consolidated basis, it reported a net profit of Rs. 88 crore in Q1 FY2024 (total comprehensive income (TCI) of Rs. 76 crore) against Rs. 5 crore in FY2023 (TCI of negative Rs. 16 crore) in FY2023.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	Q1 FY2024*
Total income	1,381	1,559	459^
Profit after tax	21	5	88
Gross AUM	7,617	9,115	9,535
Gross stage 3	8.0%	3.3%	2.5%
Net stage 3	2.4%	1.5%	1.2%

Source: Company, ICRA Research; All ratios and values are as per ICRA's calculations; Amount in Rs. crore

*Q1 FY2024 values based on limited review financials and total income is adjusted for fair value loss(es); ^Net of ECL

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
					Sep 04, 2023	-	-	-
1	KEDAR 2023	Series A1(a) PTC	31.94	31.94	Provisional [ICRA]AA-(SO)	-	-	-
		Series A1(b) PTC	2.35	2.35	Provisional [ICRA]A(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
KEDAR 2023	Series A1(a) PTC	August 2023	12.11%	May 9, 2025	31.94	Provisional [ICRA]AA-(SO)
	Series A1(b) PTC		12.70%	May 10, 2025	2.35	Provisional [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

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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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