

February 26, 2024

Share Microfin Limited: Provisional [ICRA]A-(SO) assigned to Series A1(a) PTC and Provisional [ICRA]BBB+(SO) assigned to Series A1(b) PTC backed by microfinance loan receivables issued by Talitha February 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Talitha February 2024	Series A1(a) PTC	16.79	Provisional [ICRA]A-(SO); assigned
	Series A1(b) PTC	1.87	Provisional [ICRA]BBB+(SO); assigned

*Instrument details are provided in Annexure I

Rating in the absence of 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 Share Microfin Limited (SHARE). The PTCs are backed by a pool of Rs. 21.32-crore (principal amount; receivables of Rs. 24.72 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 SHARE (originator), (ii) principal subordination (21.25% 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 9.49% 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 SHARE.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, over-collateralisation and CC
- Average seasoning of ~5 months and average pre-securitisation amortisation of ~22% as on the cut-off date

Credit challenges

- Moderate geographical concentration with top state contributing around 19% of 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 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

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 November 10, 2025 for Series A1(a) PTC and November 11, 2025 for Series A1(b) PTC.

Till March 10, 2025, 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 March 11, 2025 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 21.25% 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 9.49% 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. 1.07 crore), to be provided by SHARE, would act as further CE in the transaction. In the event of shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the same.

There are no overdue in the pool as on the cut-off date. The pool has average pre-securitisation amortisation of ~22% as on the cut-off date. It has moderate geographical concentration with the top 10 districts accounting for 20.52% 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.

Performance of past rated pool: ICRA has rated one securitisation transaction with the underlying receivables originated by SHARE. The performance of the live pool as of January 2024 payout month has been healthy with cumulative collection efficiency of more than 99% and nil cc utilisation.

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 considering 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 3.50-4.50% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pools estimated at 3.0-9.0% per annum (with a mean of 6.0%).

Liquidity position

Superior for Series A1(a) PTC

The liquidity for Series A1(a) PTC is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~8 times the estimated loss in the pool.

Strong for Series A1(b) PTC

The liquidity for Series A1(a) PTC is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~5.75 times the estimated loss in the pool.

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.

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 credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of SHARE’s portfolio till December 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 rating is provisional and would be converted into a final rating 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

SHARE Microfin Limited (SHARE) is a non-deposit accepting non-banking finance company-micro finance institution (ND-NBFC-MFI) established in 1989. The company is engaged in lending microfinance loans to women from the weaker section of the society under joint liability group (JLG) model.

SHARE Microfin Limited is amongst the erstwhile Andhra Pradesh (AP) based entities which were impacted because of Andhra Pradesh Microfinance Institutions Ordinance 2010; subsequent to which, the company’s debt repayment abilities were impacted, and the company was admitted into corporate debt restructuring (CDR). During April 2017, through a scheme of arrangement approved by Hon’ble High Court of Hyderabad, the company has demerged its AP portfolio into Asmitha Microfin

Limited while merging Asmitha’s non-AP portfolio into Share Microfin Limited. Subsequent to the said scheme of arrangement, the company has entered into a Payment Agreement-2023 with all the erstwhile CDR lenders as on March 27, 2023 and repaid entire outstanding liabilities including Principal, Interest, OCCRPS, Redemption Premium in full on March 29, 2023. As per the terms of the Payment Agreement, the Company received No Due certificates from the erstwhile CDR lenders and all the securities were released, and ROC satisfactions are completed. Post repayment transaction, the company has commenced accessing growth funding (both On & Off balance sheet funding) from various lenders.

Key financial indicators

	FY2021	FY2022	FY2023
Net interest income	109.0	100.2	81.5
Profit after tax	2.5	3.2	4.3
Total managed assets	701.9	664.8	722.0
Gross NPA	3.1%	0.6%	0.3%
Net NPA	1.6%	0.0%	0.1%

Source: Company, ICRA Research; Amount in Rs. crore

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	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				February 26, 2024	-	-	-
Talitha February 2024	Series A1(a) PTC	16.79	16.79	Provisional [ICRA]A-(SO)	-	-	-
	Series A1(b) PTC	1.87	1.87	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
Talitha February 2024	Series A1(a) PTC	February 2024	12.90%	Nov 10, 2025	16.79	Provisional [ICRA]A-(SO)
	Series A1(b) PTC	February 2024	13.90%	Nov 11, 2025	1.87	Provisional [ICRA]BBB+(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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