

April 08, 2024

## Suryoday Small Finance Bank Limited: Provisional [ICRA]AA-(SO) assigned to Series A1 PTC and Provisional [ICRA]A+(SO) assigned to Series A2 PTC backed by unsecured loan receivables issued by Saryu 03 2024

### Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Saryu 03 2024	Series A1 PTC	68.37	Provisional [ICRA]AA-(SO); Assigned
	Series A2 PTC	1.00	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 Suryoday Small Finance Bank Limited (Suryoday; rated [ICRA]A (Stable)/[ICRA]A1+). The PTCs are backed by a pool of Rs. 77.26-crore (principal amount; receivables of Rs. 98.29 crore) unsecured loan receivables.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 7.75% of the pool principal to be provided by the Originator (Suryoday), (ii) subordination of 11.50% of the initial pool principal (including the principal payable to Series A2 PTC) for Series A1 PTC and overcollateralisation of 10.20% of the initial pool principal for Series A2 PTC, (iii) excess interest spread (EIS) of 20.96% for Series A1 PTC and 20.69% for Series A2 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 of the documentation pertaining to the transaction by ICRA and the furnishing of a legal opinion on the transaction to ICRA by Suryoday.

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of EIS, overcollateralisation and CC
- No overdue contracts in the pool as on the cut-off date
- Seasoned loan contracts in the pool with pre-securitisation amortisation of ~21% as on the cut-off date.

#### Credit challenges

- High geographical concentration with top three states contributing ~62% share in the initial pool.
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; 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 trust. The cashflow schedule for Series A1 PTC on a monthly basis will comprise interest (at the pre-determined yield) on the outstanding PTC principal on each payout. The principal on the Series A1 PTC and both, the interest and principal on the Series A2 PTC is promised on the final maturity date. The final maturity date for both series of PTCs is August 17, 2026.

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).

On each payout date, all excess cashflow, after making the promised and expected payments, would be passed on to the residual beneficiary (Originator). All prepayment amounts would be passed on to Series A1 PTC (till the Series A1 PTC principal is not fully amortized) every month and its future payouts revised accordingly.

The first line of support for Series A1 PTC in the transaction is in the form of subordination of 11.50% of the pool principal (includes principal payable to Series A2 PTC). After Series A1 PTC has been fully paid, overcollateralisation of 10.20% of the pool principal will be available for Series A2 PTC. Further support is available in the form of EIS of 20.96% of the pool principal for Series A1 PTC and 20.69% of the pool principal for Series A2 PTC. A CC of 7.75% of the initial pool principal (Rs. 5.99 crore), to be provided by Suryoday, 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 (in case the over-collateral and EIS are insufficient) to meet the shortfall.

The present transaction comprises of unsecured loans namely unsecured individual income generating loans to inclusive finance customer, forming ~66% of the total pool principal, and unsecured MSME loans originated under its parentship program with another NBFC (which is rated [ICRA]BBB+ (Positive)). There are no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top three states constituting ~62% of the pool principal. The pool consists of monthly paying loan contracts with moderate weighted average seasoning (7.6 months) and pre-securitisation amortisation (~21%). It has a relatively low share of contracts (~22%) with a ticket size of more than Rs. 7 lakh. The pool would be exposed to the inherent credit risk associated with the unsecured nature of the asset class and its performance would remain exposed to macro-economic shocks/business disruptions.

**Performance of past rated pools:** This is the first PTC transaction of Suryoday to be rated by ICRA.

### 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 5.00-6.00% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 4.80-18.0% per annum.

### Liquidity position: Strong for both series of PTCs

The liquidity for both the PTC instruments in the transaction is strong after factoring in the CE available to meet the promised payouts to the investors. The total CE would be ~5.50 times and ~5.25 times the estimated loss in the pool for Series A1 PTC and Series A2 PTC respectively.

### Rating sensitivities

**Positive factors** – 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 ratings upgrade.

**Negative factors** – 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. Weakening in the credit profile of the servicer could also exert pressure on the ratings.

## Analytical approach

The rating action is based on the analysis of the performance of Suryoday’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	
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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. Auditor’s 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](http://www.icra.in).

## About the originator

Suryoday, initially incorporated as Suryoday Micro Finance Limited, was set up in October 2008 as a non-banking financial company, with the objective of providing loans to women in urban and semi-urban areas using the joint liability group (JLG) lending model. Suryoday received a licence from the Reserve Bank of India (RBI) in FY2016 to commence operations as a small finance bank. It commenced operations as a small finance bank on January 23, 2017.

As on December 31, 2023, the bank was operating in 15 states and Union Territories (UTs) across India through its 672 branches, with a strong presence in Maharashtra, Tamil Nadu, and Odisha. Suryoday catered to 26.3 lakh clients while managing a portfolio of Rs. 7,600 crore as on December 31, 2023.

### Key financial indicators (audited)

Suryoday Small Finance Bank Limited	FY2022	FY2023	9M FY2024*
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	1,035	1,281	1,299
Profit after tax	(93)	78	155
Total assets	8,180	9,861	11,122
Gross NPAs	11.8%	3.1%	3.1%
CRAR	37.9%	33.7%	27.8%

Source: Company, ICRA Research; 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	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					April 08, 2024	-	-	-
1	Saryu 03 2024	Series A1 PTC	68.37	68.37	Provisional [ICRA]AA-(SO)	-	-	-
		Series A2 PTC	1.00	1.00	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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
<b>Saryu 03 2024</b>	Series A1 PTC	March 2024	9.00%	August 2026	68.37	Provisional [ICRA]AA-(SO)
	Series A2 PTC	March 2024	12.00%	August 2026	1.00	Provisional [ICRA]A+(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.

For more information, visit [www.icra.in](http://www.icra.in)

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### Branches



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