July 16, 2024

Suryoday Small Finance Bank Limited: Ratings confirmed as final for PTCs 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	[ICRA]AA-(SO); provisional rating confirmed as final
	Series A2 PTC	1.00	[ICRA]A+(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In April 2024, ICRA had provisional ratings to pass through certificates (PTCs) issued by Saryu 03 2024. The PTCs are backed by a pool of unsecured loan receivables originated by Suryoday Small Finance Bank Limited (Suryoday/Originator) (rated [ICRA]A(Stable)/[ICRA]A1+) with an aggregate principal outstanding of Rs. 77.26 crore (pool receivables of Rs. 98.29 crore).

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 ratings have now been confirmed as final.

Pool performance summary

Parameter	Saryu 03 2024
Payout Month	May 2024
Months post securitisation	2
Pool amortisation	9.65%
Series A1 PTC amortisation	10.89%
Series A2 PTC amortisation	0.00%
Cumulative prepayment rate	1.84%
Cumulative collection efficiency	99.30%
Loss-cum-0+ dpd	1.16%
Loss cum 30+ dpd	0.21%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

Transaction structure

According to the transaction structure, 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 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 credit enhancement available in the structure is in the form of (i) a cash collateral of 7.75% of the initial pool principal, amounting to Rs. 5.99 crore, provided by the Originator, (ii) subordination of 11.50% of the initial pool principal for Series A1 PTC and 10.20% of the initial pool principal for Series A2 PTC, and (iii) the excess interest spread (EIS) of 20.96% of the initial pool principal for Series A1 PTC and 20.69% of the initial pool principal for Series A2 PTC.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool as on cut-off date is granular, consisting of 9,631 contracts, with top 10 contracts forming only 1.1% of the initial pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, none of the contracts in the pool had ever been delinquent, which is a credit positive.

Seasoned contracts in the pool – The pool is amortised by almost 21% as on the cut-off date with no delinquencies seen in any of the contracts, post loan disbursement, thereby reflecting the borrowers' relatively better credit profile.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Gujarat, Tamil Nadu and Maharashtra, contributing ~62% to the initial pool principal amount as on the cut-off date. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc. Nonetheless, the contracts are well-diversified across multiple cities with the top 10 cities forming ~28% of the initial pool amount, which alleviates the concentration risk to some extent.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recovery from delinquent contracts tends to be lower.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 5.50% of the initial pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 5% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Saryu 03 2024
Originator	Suryoday Small Finance Bank Limited
Servicer	Suryoday Small Finance Bank Limited
Trustee	Catalyst Trusteeship Limited
CC-holding Bank	ICICI Bank Limited
Collection and payout account Bank	ICICI Bank Limited

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 (Suryoday) could also exert pressure on the ratings.

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

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; 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 (FY2025)					Chronology of Rating History for the Past 3 Years		
		Instrument	Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					July 16, 2024	April 08, 2024	-	-	-
1	Saryu 03 2024	Series A1 PTC	68.37	68.37	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-	-
		Series A2 PTC	1.00	1.00	[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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Saryu 03 2024	Series A1 PTC	April 10, 2024	9.00%	August 17, 2026	68.37	[ICRA]AA-(SO)
	Series A2 PTC	April 10, 2024	12.00%	August 17, 2026	1.00	[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

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