

December 02, 2024

## Spandana Sphoorty Financial Limited: Provisional [ICRA]AA+(SO) assigned to PTC Series A1 issued by Celerity 09 2024, backed by a pool of microfinance loans

### Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Celerity 09 2024	PTC Series A1	68.98	Provisional [ICRA]AA+(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

The pass-through certificates (PTCs) are backed by a pool of microfinance loan receivables originated by Spandana Sphoorty Financial Limited (SSFL/Originator; rated [ICRA]A+(Stable)) with an aggregate principal outstanding of Rs. 79.75 crore (pool receivables of Rs. 94.20 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts along with the eligibility criteria for follow-on pools, the credit enhancement available 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 and ICRA's review of the documentation pertaining to the transaction.

### Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The residual cash flows from the pool, after meeting the promised and expected payouts, will be flow back to the originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of the PTC Series A1 principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 6.00% of the initial pool principal, amounting to Rs. 4.78 crore, to be provided by the Originator, (ii) principal subordination of 13.50% of the initial pool principal for PTC Series A1 and (iii) the excess interest spread (EIS) of 12.99% of the initial pool principal for PTC Series A1.

### Key rating drivers and their description

#### Credit strengths

**Granular pool supported by presence of credit enhancement** – The pool is granular, consisting of 25,514 contracts, with no contract exceeding 0.01% of the 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 are no overdue contracts.

**Seasoned contracts in the pool** – The pool has amortised by almost 27% 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

**Risks associated with lending business** – The pool 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 performance of microfinance loans would also be exposed to political and communal risks.

**Increasing delinquencies in microfinance sector** – The microfinance sector has seen a decline in collections and consequently rise in delinquencies in the current fiscal on account of multiple factors like heat wave, general elections, borrower overleveraging and attrition in collection teams. Any sustained impact of these factors on the collections from the pool would be a monitorable.

## 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 4.50% of the pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 3% to 9% 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.

## Liquidity position

The liquidity for PTC Series A1 is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~6.25 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 (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 (SSFL) could also exert pressure on the rating.

## Analytical approach

The rating action is based on the analysis of the performance of SSFL’s microfinance loan portfolio till September 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable

<b>Consolidation/Standalone</b>	Not Applicable
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## 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 final upon the execution of 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

Spandana Sphoorty Financial Limited (SSFL) was incorporated in 2003 as a non-banking financial company (NBFC). However, it took over the microfinance operations of Spandana, a non-governmental organisation in 1998. The company was classified as an NBFC-microfinance institution (NBFC-MFI) in 2015. Following the microfinance crisis in Andhra Pradesh (AP), the company entered into a master restructuring agreement (MRA) as a part of the corporate debt restructuring (CDR) with its lenders in September 2011. It exited the CDR in April 2017 after an equity investment led by Kedaara Capital Investment Managers Limited (Kedaara Capital) and fresh funding from three banks. SSFL completed its initial public offering (IPO) in August 2019. The current leadership team is led by Mr. Shalabh Saxena (Managing Director & Chief Executive Officer) and Mr. Ashish Damani (President & Chief Financial Officer). The company has a 10-member board of directors, including 5 independent directors.

## Key financial indicators (audited)

Spandana Sphoorty Financial Limited (standalone)	FY2022	FY2023	FY2024
<b>Total income</b>	1,350.8	1,355.8	2,386.7
<b>Profit after tax</b>	46.6	12.3	467.9
<b>Total managed assets</b>	7,985.5	9,933.3	13,852.3
<b>Gross stage 3</b>	18.9%	1.9%	1.6%
<b>CRAR</b>	50.7%	36.9%	32.0%

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

Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
<b>Celerity 09 2024</b>	PTC Series A1	68.98	December 02, 2024 Provisional [ICRA]AA+(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
<b>PTC Series A1</b>	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 (p.a.p.m)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
<b>Celerity 09 2024</b>	PTC Series A1	November 28, 2024	9.75%	July 17, 2026	68.98	Provisional [ICRA]AA+(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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