

March 19, 2021

## S.M.I.L.E. Microfinance Limited: Provisional [ICRA]BBB+(SO) rating assigned to PTCs backed by microfinance loan receivables issued by Credavenue Maze 03 2021

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Credavenue Maze 03 2021	PTC Series A1	20.00	Provisional [ICRA]BBB+(SO); Assigned

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by S.M.I.L.E. Microfinance Limited (SMILE). The PTCs are backed by a pool of Rs. 24.71 crore microfinance loan receivables (underlying pool principal of Rs. 22.73 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 8.0% of the pool principal to be provided by the originator, (ii) over-collateralisation of 12.0% of the pool principal for PTC Series A1, and (iii) subordination of the entire excess interest spread (EIS) in the structure. The rating also considers the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of CE in the form of subordination of pool principal for PTC Series A1, EIS and CC
- Absence of overdue contracts as on pool cut-off

#### Credit challenges

- Pool has high geographical concentration with Tamil Nadu accounting for around 77% of the pool
- Pool's performance will remain exposed to any fresh disruptions that may arise due to Covid-19 pandemic
- Performance of the pool would also 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

### Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 12.00% of the pool principal (over-collateralisation). An important feature of the structure in this transaction is that any collection in excess of the promised interest payouts to PTC Series A1 would be first utilised for the payment of the expected principal of PTC Series A1 and the rest would be passed on to the originator on a monthly basis.

A CC of 8.00% of the initial pool principal provided by SMILE acts 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 shortfall. The EIS available in the structure will also provide CE support.

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 Tamil Nadu constituting 77% of the pool principal. Nonetheless, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

**Performance of past rated pools:** In the past, ICRA has rated 15 microloan receivable pools originated by SMILE with the last pool being rated in September 2016. There are no live pools as on date. In all the past rated pools, the collection efficiency was good with no instance of CC utilisation in any of the transactions.

## 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 contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.5-5.5% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 8.0-12.0% per annum.

## Liquidity position: Adequate

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC Series A1 investors.

## Rating sensitivities

**Positive factors** – The provisional rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of cover from the CE.

**Negative factors** – Pressure on the rating could emerge on the sustained weak collection performance (monthly collection efficiency <90%) of the underlying pool leading to higher-than-expected delinquency levels and CE utilisation levels.

## Analytical approach

The rating action is based on the analysis of the performance of SMILE's portfolio till January 2021, 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the company

S.M.I.L.E. Microfinance Limited was started in 2004 to provide credit services to the urban and rural poor. It was registered as a non-deposit taking non-banking financial company (NBFC) in January 2006 and received a microfinance institution (MFI) licence in May 2015. SMILE provides credit to economically-backward women through the joint liability group mechanism. DWM Investments (Cyprus) Limited infused equity of Rs. 25 crore each in FY2010 and FY2011 and holds a stake of 66.6% in the company at present. The promoter group holds 18.6% while the rest is held by women members (erstwhile and current) and associates. As of September 30, 2020, SMILE had a total active member base of 2.7 lakh with a managed portfolio of Rs. 492.8 crore.

## Key financial indicators (audited)

	FY2019	FY2020	H1 FY2021
Total Income	57.2	63.8	31.2
Profit after Tax	21.5	12.4	7.8
Assets under Management	515.0	606.5	492.8
Gross Non-performing Assets (NPA)%	0.3%	0.2%	0.3%
Net NPA%	0.0%	0.0%	0.0%

*Note: 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 (FY2021)			Chronology of Rating History for the past 3 years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
1	Credavenue Maze 03 2021	PTC Series A1	20.00	20.00	March 19, 2021 Provisional [ICRA]BBB+(SO)	-	-	-

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

#### Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Credavenue Maze 03 2021	PTC Series A1	March 2021	12.00%	November 2021	20.00	Provisional [ICRA]BBB+(SO)

\* Scheduled maturity date at transaction initiation; may change on account of prepayments

Source: Company

#### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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

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