February 08, 2024

Sarvagram Fincare Private Limited: Provisional [ICRA]A(SO) assigned to Series A1 PTC backed by a mixed pool of secured and unsecured loan receivables issued by Magnolia 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Magnolia 2024	Series A1 PTC	34.02	Provisional [ICRA]A(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

Rationale

ICRA has assigned a provisional rating to Series A1 PTC issued under a securitisation transaction originated by Sarvagram Fincare Private Limited {SFPL/originator; rated [ICRA]BBB (Stable)}. The pass-through certificates (PTCs) are backed by a mixed pool of Rs. 37.80-crore (principal amount; receivables of Rs. 60.21 crore) secured and unsecured loan receivables originated by SFPL.

The provisional rating is 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 5.00% of the initial pool principal to be provided by the originator, (ii) principal subordination of 10.00% of the initial pool principal (including the principal payable to the equity tranche) for Series A1 PTC, and (iii) excess interest spread (EIS) of 42.69% of the initial pool principal for Series A1 PTC in the structure; as well as 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 EIS, over-collateralisation and CC
- No overdue contracts as on the cut-off date
- Average seasoning of ~15 months and average pre-securitisation amortisation of ~17% as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing around 96% to the pool principal as on the cut-off date
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower

Description of key rating drivers highlighted above

According to the transaction structure, the equity tranche is subordinated to Series A1 PTC. During the tenure of Series A1 PTC, the collections from the pool will be used to make the promised interest payouts and the expected principal payouts (to the extent of principal billed) to Series A1 PTC. Post the maturity of Series A1 PTC, the payout to the equity tranche (principal payouts to equity tranche investors) will be on expected basis, which will be due and payable only on the final maturity date. The final maturity date for Series A1 PTC and the equity tranche is January 20, 2033.

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. However, this principal payment is not promised and any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payout. All prepayment amounts would be passed on to Series A1 PTC (till the Series A1 PTC principal is not fully amortised) every month and the future payouts will be revised accordingly. The entire principal repayment to PTC Series A1 and the equity tranche are promised on the scheduled maturity date. A part (50%) of the residual cash flow from the pool, after making the promised and expected payouts, would be used for the prepayment of the Series A1 PTC principal while the rest (50%) would be used for the payment to the residual beneficiary. The actual tenure of the PTC is expected to be shorter owing to such acceleration.

The first line of support for Series A1 PTC in the transaction is in the form of a principal subordination of 10.00% of the initial pool principal (includes the principal payable to the equity tranche). Further credit support is available in the form of an EIS of 42.69% of the initial pool principal for Series A1 PTC. A CC of 5.00% of the initial pool principal (Rs. 1.89 crore), to be provided by SFPL, would act 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 same.

The pool consists of secured (~86% of the initial pool principal) and unsecured (~14% of the initial pool principal) loan receivables. There were no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is 15.3 months[1] with pre-securitisation amortisation of 16.8% as on the cut-off date. The pool has high geographical concentration with the top 3 states (Gujarat, Maharashtra and Karnataka) contributing 95.5% to the initial pool principal amount. At the district level, the top district accounted for 18.4% of the initial pool principal amount while the top 10 districts accounted for 82.1%. The performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities, which may impact the income-generating capability of the borrower.

Past rated pool performance: This is the first PTC transaction of SFPL 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 balance 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 past performance of the originator's portfolio and the rated pools as well as the performance and 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%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 4.8-18.0% (with an average of 12.0%) per annum.

Liquidity position: Superior

The liquidity for the PTC instruments in the transaction is superior after factoring in the CE available to meet the promised payouts to the investors. The total CE would be ~7.5 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 CE would result in a rating upgrade.

[1] *Basis number of instalments as shared by the originator*

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 CE 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 SFPL'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 final 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

Sarvagram Fincare Private Limited (SFPL) is a non-deposit taking non-banking financial company (NBFC), which focuses on providing credit products such as farm loans, business loans, housing loans, personal/consumer durable loans, and gold loans to households with multiple sources of income in rural India. It was incorporated in November 2018 and the corporate office is in Mumbai. SFPL is a 79.7% subsidiary of Sarvagram Solutions Private Limited (SSPL), with the balance held by the founders – Mr. Utpal Isser and Mr. Sameer Mishra. SSPL provides non-lending financial services such as farm mechanisation solutions, insurance distribution, etc, in the same geographies catered to by SFPL through a network of individual franchisees (Sarvamitras). SSPL also provides a digital platform with technology solutions to SFPL.

The Group reported a net loss of Rs. 7.7 crore in H1 FY2024 on total managed assets[2] of Rs. 769.5 crore while it reported a net loss of Rs. 34.1 crore on total managed assets of Rs. 744.5 crore in FY2023. On a standalone basis, SFPL reported a net profit of Rs. 1.3 crore on total managed assets of Rs. 666.0 crore in H1 FY2024 while it reported a net loss of Rs. 19.2 crore on total managed assets of Rs. 491.5 crore in FY2023.

Key financial indicators

SSPL (consolidated)	FY2022	FY2023	H1 FY2024*
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	25.8	79.1	68.4
Profit after tax	(29.6)	(34.1)	(7.7)
Total managed assets	236.8	744.5	769.5
Return on managed assets	-17.7%	-6.9%	-2.0%
Managed gearing (times)	2.5	1.3	1.5

Source: Company; ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations
**Provisional numbers*

SFPL (standalone)	FY2022	FY2023	H1 FY2024*
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	22.0	70.3	62.0
Profit after tax	(21.2)	(19.2)	1.3
Total managed assets	214.1	491.5	666.0
Return on managed assets	-15.4%	-5.4%	0.4%
Managed gearing (times)	3.0	5.9	2.1
Gross NPA/Gross stage 3 #	1.1%	1.0%	1.6%
CRAR	28.0%	18.8%	36.3%

Source: Company, ICRA Research; #Gross non-performing assets (GNPAs) for FY2022 and FY2023 are based on 180+ days past due (dpd) while the same is based on 90+ dpd for H1 FY2024; All ratios as per ICRA's calculations; Amount in Rs. crore
** Provisional numbers*

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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Feb 08, 2024	-	-	-
Magnolia 2024	Series A1 PTC	34.02	34.02	Provisional [ICRA]A(SO)	-	-	-

[2] *Managed assets = Total assets (net of goodwill) + Total off-book portfolio*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 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 Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Magnolia 2024	Series A1 PTC	January 2024	11.10%	January 2033	34.02	Provisional [ICRA]A(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

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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