

September 22, 2017

Spandana Sphoorty Financial Limited

Summary of Rated Instruments

Trust Name	Instrument*	Initial Issued Amount (Rs. crore ¹)	Rating action
Vivriti Summus 007 2017	PTC Series A1	24.83	Provisional [ICRA]A+(SO) assigned
	PTC Series A2	2.19	Provisional [ICRA]BBB(SO) assigned

*Instrument details are provided in Annexure I

Rating Action

ICRA has assigned Provisional [ICRA]A+(SO) rating to PTC Series A1 and Provisional [ICRA]BBB(SO) rating to PTC Series A2 under a securitisation transaction originated by Spandana Sphoorty Financial Limited (Spandana). The PTCs are backed by a pool of Rs. 29.21 crore micro loan receivables (underlying pool principal of Rs. 35.39 crore).

Rationale

The provisional ratings are based on the strength of cash flows from the selected pools of contracts; the credit enhancement available in the form of (i) Cash collateral of 4.50% of the pool principal to be provided by the Originator, (ii) subordination of 15.00% of the pool principal for PTC Series A1 and subordination of 7.50% of pool principal for PTC Series A2, and, (iii) subordination of entire Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure. The ratings are subject to fulfillment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit Strengths

- The first line of support is available for the transaction through subordination of the excess interest spread (EIS) amounting to around 14.89% of the pool principal amount for PTC A1 and 13.32% of the pool principal amount for PTC A2;
- Further credit support in the transaction is available through subordination of 15.00% and 7.50% of pool principal for PTC Series A1 and A2 respectively followed by a Credit Collateral (CC) equivalent to 4.50% of the initial pool principal amount.
- Favorable selection filters for the pool like absence of overdue contracts, absence of contracts from districts which were severely impacted on the account of demonetization;
- Month on month improvement in delinquency levels in the overall portfolio of Spandana.

Credit Weaknesses

- The share of states of Maharashtra and Karnataka which have been impacted on account of demonetization is moderate at ~35%.
- The pool has a lower seasoning of ~18 weeks and amortization of the contracts in the pool is low at 16.68%

¹ 100 lakh = 1 crore = 10 million

Description of key rating drivers highlighted above:

The first line of support for Series A1 PTCs in the transaction is in the form of subordination of 15.00% of the pool principal (includes principal payable to PTC A2 and over collateralization). After PTC A1 has been fully paid, subordination of 7.50% of the pool principal will be available for PTC A2. An important feature of the structure in this transaction is that any collection in excess of the promised interest payouts to PTC A1 would be first utilised for payment of scheduled principal of PTC A1 and then for expected interest payouts to PTC A2. After PTC A1 is completely amortised the same would be utilised for payment of promised interest and scheduled principal to PTC A2.

Cash collateral of 4.50% of the initial pool principal provided by Satin acts as further credit enhancement in the transaction. In the event of shortfall in meeting the promised PTC payouts during any month, the Trustee will utilize the cash collateral to meet the shortfall. Additionally, EIS available in the structure will also provide credit enhancement support.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that are less seasoned with weighted average seasoning of 18 weeks, and have a low pre-securitisation amortisation of ~17%. Additionally, the door to door residual tenure of the contracts is moderate at 90 weeks. The contracts have an average ticket size of Rs. 25,348 which is in line with industry standards.

The geographical concentration of the loan contracts in the current pool is moderate with top state constituting ~18% of the pool principal and the top five districts constituting ~20% of the pool principal.

Key rating assumptions

ICRA's cash flow modeling for rating ABS transactions involves simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for mean shortfall and the Co-efficient of Variation (CoV) are arrived on the basis of the values observed in the analysis of the Originator's loan portfolio. Additionally, the assumptions may also be adjusted to account for the current macro economic situation as well as any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 4.0% - 5.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 12.0% - 18.0% per annum.

Analytical approach:

The rating action is based on the analysis of the past performance of Spandana's portfolio, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Links to applicable Criteria

[Rating Methodology for Securitisation Transactions](#)

About the Company:

Spandana Sphoorty Financial Limited (SSFL) was incorporated in 2003 as a non-banking financial company (NBFC) and took over the microfinance operations of Spandana, a non-governmental organisation started by Ms. Padmaja Reddy in 1998. The company was classified as a non-banking financial company – microfinance institution (NBFC - MFI) in 2015. Following the microfinance crisis in Andhra Pradesh (AP), SSFL 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 a fresh equity investment led by Kedaara Capital Investment Managers Limited² (Kedaara Capital) and fresh funding from three banks. The key shareholders in the company as of July 2017 on diluted basis are Kedaara Capital (55.5%), JM Financial Ltd group (9.5%) and the company's erstwhile promoter Ms. Reddy (17.7%), who continues to be the Managing Director. As on July 31, 2017, the company had operations in 13 states and union territories (UTs) spanning across 198 districts with a total loan portfolio outstanding of Rs. 1,886 crore. The active member base and number of credit assistants stood at 10.6 lakh and 2,220 respectively as on June 30, 2017. As of July 31, 2017 the 0+ dpd of the company is low at 4.58%.

Key Financial Indicators (Audited)

	FY2016	FY2017
Total income (Rs. crore)	328.44	336.24
Profit after tax (Rs. crore)	243.24	52.95
Net worth (Rs. crore)	(606.92)	537.24
Total Assets (Rs. crore)	2,099.89	2,413.18
Total managed assets (Rs. crore)	2,099.89	2,413.18
Return on Assets (%)	10.93%	2.35%
Return on Average Net worth (%)	-33.53%	-151.97%
Total Debt/ Tangible Net Worth (times)	-2.92	1.78

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating September 2017	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
1	Vivriti Summus 007 2017	PTC Series A1	24.83	Provisional [ICRA]A+(SO) assigned	-	-	-
		PTC Series A2	2.19	Provisional [ICRA]BBB(SO) assigned			

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

² Through a special purpose vehicle called Kanchenjunga Limited

**Annexure
Details of Instruments**

Sl.	Trust Name	Instrument	Date of Issuance	Coupon Rate	Scheduled Maturity Date*	Initial Amount (Rs. crore ³)	Current Rating
1	Vivriti Summus 007 2017	PTC Series A1	September 2017	10.00%	June 2019	24.83	Provisional [ICRA]A+(SO) assigned
		PTC Series A1		15.00%		2.19	Provisional [ICRA]BBB(SO) assigned

* Scheduled maturity and average life at transaction initiation; may change on account of prepayment and yield change

³ 100 lakh = 1 crore = 10 million

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About ICRA Limited:

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