Sonata Finance Private Limited

May 04, 2018

Summary of rated instruments

Issue Name	Instrument*	Initial Amount (Rs. Crore)	Rating action
Ellaria Northern Arc 2018	PTC Series A1	16.06	Provisional rating of [ICRA]A(SO) confirmed as final
	PTC Series A2	1.55	Provisional rating of [ICRA]BBB-(SO) confirmed as final

*Instrument details are provided in Annexure-1

Rating action

ICRA has confirmed the provisional ratings assigned to PTCs issued by Ellaria Northern Arc 2018 trust as final, as tabulated above.

Rationale

In March 2018, ICRA had assigned Provisional [ICRA]A(SO) rating to PTC Series A1 and Provisional [ICRA]BBB-(SO) rating to PTC Series A2, issued by Ellaria Northern Arc 2018 trust. Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit Strengths

- The first line of support is available for the transaction through subordination of 17.00% and 9.00% of pool principal for PTC Series A1 and A2 respectively;
- Further credit support in the transaction is available through subordination of the excess interest spread (EIS) amounting to around 9.20% of the pool principal amount for PTC A1 and 7.84% of the pool principal amount for PTC A2 followed by a Credit Collateral (CC) equivalent to 9.00% of the initial pool principal amount.
- Favorable selection filters for the pool like absence of overdue contracts, good pre-securitization amortization of 25.6% and moderately low geographical concentration of the contracts in the pool with the top 5 districts making up 26.8% of the pool principal

Credit Challenges

- 21.9% of the contracts in the pool have been sourced from weak performing branches that have portfolio 0+ dpd levels between 10% to 20%
- High delinquency levels in the overall portfolio of Sonata, primarily driven by the demonetization event

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 17.00% of the pool principal (includes principal payable to PTC A2 and over collateralization). After PTC A1 has been fully paid, subordination of 9.00% 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 9.00% of the initial pool principal provided by Sonata 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 geographical concentration of the loan contracts in the current pool is moderately low with contracts originating from the state of Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan and Punjab. The top five districts constitute to 26.8% of the pool principal.

The pool consists of loans that are low to moderately seasoned with weighted average seasoning of 19.6 weeks, and have a good pre-securitisation amortisation of 25.6%. Additionally, the door to door residual tenure of the contracts is moderate at 94 weeks. The contracts have an average ticket size of Rs. 23,456 which is in line with industry standards. 21.9% of the contracts in the pool have been sourced from weak performing branches that have portfolio 0+ dpd levels in the range of 10% to 20%, however there are no contracts from branches that have a portfolio 0+ dpd level greater than 20%.

The overall portfolio of Sonata reported delinquencies of 21.8% in the 0+ bucket while delinquencies in the 90+ bucket were at 11.3% as on Dec-17.

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 6.0% - 7.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 2.0% - 5.0% per annum.

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

Links to applicable criteria:

Rating Methodology for Securitisation Transactions

About the company:

Sonata Finance Private Limited (Sonata) is a NBFC-MFI that was incorporated in 1995 and registered as a Non Deposit taking NBFC in 2001. The microfinance operations of the company were started in 2006 by Mr. Anup Kumar Singh who is the Managing Director of the company at present. Since its inception, Sonata has raised funds from social investors (institutional and individuals) including Caspian Advisors Private Limited and Michael & Susan Dell Foundation (MSDF). Caspian Advisors has invested in India through two SPVs – Bellwether Microfinance Fund and India Financial Inclusion Fund. The company has its headquarters in Lucknow (earlier in Allahabad). ICRA has a rating outstanding of [ICRA]BBB(Negative) and a grading of M2+ on Sonata Finance Pvt Ltd.

Sonata primarily caters to the rural population, though it has some borrowers in semi-urban and urban areas. Sonata offers credit to economically backward women engaged in income generation activities like processing and manufacturing, service and animal husbandry. Its key product is the income generating group loan for which it replicates Grameen Bank model of lending.

As on Dec-17, Sonata operated through a network of 414 branches across 122 districts of 8 states. The company's portfolio is concentrated to a large extent in UP, (~51% of portfolio). Post Sep-15, the company had entered the states of Punjab & Maharashtra, the share of portfolio of these states is very small as on date.

Sonata reported a profit after tax (PAT) of Rs 1.32 crore during FY2017 (audited) on a total managed asset base of Rs 1,589.2 crore as on March 31, 2017 as against a PAT of Rs 27.20 crore during FY2016 (Audited) on a total managed asset base of Rs 1384.0 crore as on March 31, 2016. Sonata reported a CRAR of 29.15% as on March 31, 2017.

Key financial indicators (Audited)

	FY 2016	FY 2017
Net interest income (Rs. crore)	60.5	68.2
Profit after tax (Rs. crore)	27.2	10.6
Total Managed Assets (Rs. crore)	1,384.0	1,589.2
% Profit after tax/ Average Managed Assets	2.8%	0.8%
Net worth	145.8	222.0
Net NPA/Net worth	0.4%	0.9%

Amounts in Rs. crore
Source: ICRA research and company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years	
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating May-18	Date & Rating in FY2018 Mar-18*	Date & Rating in FY2017
1	Ellaria Northern Arc 2018	PTC Series A1	16.06	16.06	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-
		PTC Series A2	1.55	1.55	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)	-

**Initial Ratings assigned*

Complexity level of the rated instrument: Highly Complex

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

Annexure-1: Instrument Details

Issue Name	Instrument	Month of Issuance	Coupon Rate	Scheduled Maturity Date#	Rated Amount (Rs. crore[1])	Current Rating
Ellaria Northern Arc 2018	PTC Series A1	Mar-18	9.60%	Jan-20	16.06	[ICRA]A(SO)
	PTC Series A2		15.50%		1.55	[ICRA]BBB-(SO)

the actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

[1] *100 lakh = 1 crore = 10 million*

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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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