

Bharat Financial Inclusion Limited

June 28, 2018

Summary of rated instruments

Trust Name	Instrument*	Rated Amount (Rs. Crore)	Rating Action
Indian Microfinance Loan Receivables Trust Jun 2018-B	PTC Series A1	739.07	Provisional [ICRA]AA(SO) assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned Provisional [ICRA]AA(SO) rating to PTC Series A1 under a micro loan securitisation transaction originated by Bharat Financial Inclusion Limited (BFIL). The PTCs are backed by a pool of Rs. 894.06 crore micro loan receivables (underlying pool principal of Rs. 815.75 crore).

Rationale

The provisional ratings are based on the strength of cash flows from the selected pool of contracts; the credit enhancement available in the form of (i) Cash collateral of 5.00% of the pool principal to be provided by the Originator, (ii) subordination of 9.40% of the pool principal for PTC Series A1 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 9.40% of pool principal for PTC Series A1;
- Further credit support in the transaction is available through subordination of the excess interest spread (EIS) amounting to around 6.19% of the pool principal amount for PTC A1 followed by a Credit Collateral (CC) equivalent to 5.00% of the initial pool principal amount.
- Favourable selection filters for the pool like absence of overdue contracts and high share (~60%) of the contracts that have completed more than 1 loan cycle as on pool cut-off date;
- Low geographical concentration of the contracts in the pool at a state level with the top state of West Bengal accounting for around 18.3% of the pool principal and low concentration at a district level with the top 5 districts making up 9.5% of the pool principal;

Credit challenges

- Moderately low seasoning and pre-securitisation amortisation of the contracts in the pool

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 9.40% of the pool principal (includes over collateralization). The monthly schedule of promised cashflows for PTC A1 will comprise payment of yield (at the pre-determined rate on the principal outstanding) and scheduled principal repayment. The excess interest collections from the loan pool over the scheduled PTC A1 interest payouts will be passed on to the originator. Such amounts shall not be available for meeting future shortfalls. Additionally, the excess principal collected owing to the over-collateral will not be available to meet any future collection shortfalls.

The EIS available in the structure will also provide credit enhancement support to the transaction. Cash collateral of 5.00% of the initial pool principal provided by BFIL 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.

There are no overdues in the pool as on the cut-off date. Around 60% of the borrowers in the pool have completed 1 or more loan cycles as on the pool cut-off date. Borrowers who are in their 1st loan cycle are considered riskier as they have a limited payment track record.

The geographical concentration of the loan contracts in the current pool is low with 46.8% of contracts originating from the states of Bihar, West Bengal and Uttar Pradesh and the top five districts constituting 9.5% of the pool principal.

The contracts in the pool have a moderately low seasoning of ~17 weeks. The pool consists of 61% of loans that have an original tenure of less than 52 weeks. The door to door residual tenure of the contracts is 92 weeks which is in line with past rated pools originated by BFIL. The contracts have an average ticket size of Rs. 25,253 which is in line with industry standards.

Key Rating Assumptions

ICRA's cash flow modelling 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 3.5% - 4.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 2.0% - 4.0% per annum.

Analytical approach: The rating action is based on the analysis of the past performance of BFIL's portfolio till March 2018, 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:

Bharat Financial Inclusion Limited (BFIL) (erstwhile SKS Microfinance Limited), rated [ICRA]A+(On watch with positive implications) for its long term borrowings and [ICRA]A1+ for its short term debt, is an NBFC-MFI catering to the financial needs of poor women through the Joint Liability Group Mechanism. SKS was established as a non-governmental organization (NGO) under the name Swayam Krishi Sangama in 1998. This not-for-profit society was subsequently renamed SKS Microfinance Limited and registered as an NBFC in January 2005 and received an NBFC-MFI license in November 2013. SKS Microfinance Limited has been renamed to Bharat Financial Inclusion Limited (BFIL) in June-2016. The portfolio of BFIL had witnessed a growth of around 38% over the past year, with a book of Rs. 12,594 crore as on March-2018, which is diversified across 16 states in India with a branch network of 1433 branches (incl. AP and Telangana where the portfolio is NIL). As on December 2017, BFIL's gross and net NPAs stood at 4.6% and 0.2% respectively.

For FY2017, BFIL reported PAT of Rs. 289.7 crore on an Asset Under Management of Rs. 9149.7 crore as against a PAT of Rs. 303.0 crore on an Asset Under Management of Rs. 7676.9 crore for FY2016. For Q3FY2018, BFIL reported a PAT of Rs. 163 crore on an Asset under Management of Rs. 11,466 crore. The company was adequately capitalized with a CAR of 31.0% as of Dec-2017.

Key financial indicators (audited)

	FY2016	FY2017	H1FY2018
Total Income (Rs. crore)	1,306.0	1,723.9	966.8
PAT (Rs. crore)	303.0	289.7	82.4
Net worth (Rs. crore)	1,383.0	2,446.7	2,560.6
Total managed portfolio (Rs. crore)	7,688.0	9,149.6	10,596.9
Total managed assets (Rs. crore)	9,865.1	12,391.2	13,024.6
Return on managed assets (%)	3.8%	2.6%	1.3%
Return on equity (%)	24.9%	15.1%	6.6%
Gearing (times)	3.7	2.9	2.9
Gross NPA (%)	0.1%	6.0%	5.2%
Net worth/Managed assets (%)	14.0%	19.7%	19.7%
CRAR (%)	23.1%	33.5%	31.0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
	Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				June 2018	-	-	-
1 IMLRT Jun 2018-B	PTC Series A1	739.07	739.07	Provisional [ICRA]AA(SO)	-	-	-

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

Trust Name	Instrument Name	Date of Issuance	Coupon Rate	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
IMLRT Jun 2018-B	PTC Series A1	Jun 2018	7.62%	March 2020	739.07	Provisional [ICRA]AA(SO)

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

ANALYST CONTACTS

Vibhor Mittal

+91 22 6114 3440

vibhorm@icraindia.com

Abhijeet Ajinkya

+91 22 6114 3434

abhijeet.ajinkya@icraindia.com

Satchit Sawant

+91 22 6114 3435

satchit.sawant@icraindia.com

Arjun Bhatia

+91 22 6114 3449

arjun.bhatia@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents