

## Sonata Finance Private Limited

August 27, 2018

### Summary of rated instruments

Issue Name	Instrument*	Initial Amount (Rs. Crore)	Rated Amount (Rs. Crore)	Rating action
Vivriti Delph 06 2018	PTC Series A1	15.00	15.00	Provisional rating of [ICRA]A-(SO) confirmed as final

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has confirmed the provisional ratings assigned to PTCs issued by Vivriti Delph 06 2018 trust as final, as tabulated above.

### Rationale

In June 2018, ICRA had assigned Provisional [ICRA]A-(SO) rating to PTC Series A1, issued by Vivriti Delph 06 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 10.00% 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 13.15% of the pool principal amount for PTC A1 followed by a Credit Collateral (CC) equivalent to 7.50% of the initial pool principal amount.
- The underlying contracts in the pool are current as on cut-off date
- Robust pool selection criteria with contracts arising from only those branches where the portfolio level 0+ dpd has been below 1% as on Mar-18.

#### Credit Challenges

- High geographical concentration of the contracts in the pool
- Moderately low seasoning and a low level of pre-securitization 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 10.00% of the pool principal. Additionally, EIS available in the structure will also provide credit enhancement support to the transaction. The EIS (around 13.15% of pool principal initially, based on indicated PTC yield for PTC A1) will flow back to the Originator after the promised and scheduled payouts to the PTCs have been made every month.

Cash collateral of 7.50% of the initial pool principal (Rs. 1.25 crore) provided by Sonata, acts as further credit enhancement in the transaction. The cash collateral will be in the form of a fixed deposit maintained with a bank acceptable to ICRA. In the event of shortfall in meeting the promised PTC payouts during any month, the Trustee will utilize the cash collateral to make the investor payouts in full. The cash collateral not only provides credit support against losses on the pool, but also imparts liquidity into the transaction.

There are no overdues in the pool as on the cut-off date and contracts have been selected from only those branches where the portfolio level 0+ dpd has been below 1% as on Mar-18. The geographical concentration of the loan contracts in the current pool is high with top state of Bihar constituting ~72.8% of the pool principal and the top ten districts constituting ~70.9% of the pool principal. The pool consists of loans that are seasoned moderately low with weighted average seasoning of 14.4 weeks, and have a low pre-securitisation amortisation of ~11.9%.

### 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 5.0% - 6.0%, 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 Mar-18, Sonata operated through a network of 425 branches across 124 districts of 8 states. The company's portfolio is concentrated to a large extent in UP, (~48% 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 (33.4) crore during FY2018 (audited) on a total managed asset base of Rs 1,545.3 crore as on March 31, 2018 as against a PAT of Rs 1.3 crore during FY2017 (Audited) on a total managed asset base of Rs 1554.5 crore as on March 31, 2017. Sonata reported a CRAR of 17.25% as on March 31, 2018.

### Key financial indicators (audited)

	FY2017	FY2018
Total Income (Rs. crore)	218.4	223.4
PAT (Rs. crore)	1.3	(33.4)
Net worth (Rs. crore)	212.9	179.2
Total managed portfolio (Rs. crore)	1,056	1,376
Total managed assets (Rs. crore)	1,554.5	1,545.3
Return on managed assets (%)	0.1%	(2.1%)
Return on equity (%)	0.7%	(17.0%)
Gearing (times)	5.14	6.43
Gross NPA (%)	8.1%	8.40%
Net worth/Managed assets (%)	20.2%	11.60%
CRAR (%)	29.2%	17.25%

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years:

Instrument	Current Rating			Chronology of Rating History for the past 3 years			
	Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Aug 2018	Date & Rating in FY2019 July 2018*	Date & Rating in FY2018	Date & Rating in FY2017
1 Vivriti Delph 006 2018	PTC Series A1	15.00	15.00	[ICRA]A-(SO)	Provisional [ICRA]A-(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](http://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
Vivriti Delph 006 2018	PTC Series A1	June 2018	9.80%	Feb 2020	15.00	[ICRA]A-(SO)

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

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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.

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

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