

May 16, 2022

Spandana Sphoorty Financial Limited: Ratings upgraded for PTCs issued under microloan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount after Apr-22 Payout (Rs. crore)	Rating Action
Kent Trust 03 2021	PTC Series A1	47.42	NA	6.27	[ICRA]AA(SO); Upgraded from [ICRA]A+(SO)
KARTHIKEYA 03 2021	PTC Series A	199.98	NA	18.59	[ICRA]AA(SO); Upgraded from [ICRA]A+(SO)

*Instrument details are provided in Annexure-1

Rationale

ICRA has upgraded the ratings for the pass-through certificates (PTCs) issued under two microloan securitisation transactions backed by pools originated by Spandana Sphoorty Financial Limited (Spandana) (rated [ICRA]A-; ratings placed under watch with developing implications), as tabulated above. The ratings upgrade factors in the high amortisation in the transactions, which has led to the build-up of the credit enhancement cover over the future PTC payouts. The breakeven collection efficiency is also low compared to the actual collection levels observed in the pools. While ICRA notes the recent changes at Spandana's senior management level, the same is unlikely to affect the rating of the aforesaid PTCs given the high build-up of credit enhancement in the transactions.

A summary of the performance of the pools till the Mar-22 collection month (Apr-22 payout) has been tabulated below.

Pool performance summary

Parameter	Kent Trust 03 2021	KARTHIKEYA 03 2021
Months post securitisation	13	13
Pool amortisation	77.62%	80.45%
PTC amortisation	88.23%	90.71%
Cumulative collection efficiency ¹	92.39%	91.74%
Loss-cum-0+ dpd ² (% of initial pool)	10.77%	10.94%
Loss-cum-90+ dpd ³ (% of initial pool)	4.66%	5.25%
Cumulative cash collateral utilisation	0.00%	0.00%
Breakeven collection efficiency (BECE) ⁴	30.26%	6.62%
Cumulative prepayment rate (% of initial pool)	11.87%	15.71%
Cash collateral (CC; % of balance pool)	22.34%	35.80%
Principal subordination (% of balance pool)	47.42%	57.70%
Excess interest spread (% of balance pool) ⁵	3.63%	8.63%

¹ (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

² Inclusive of Unbilled and Overdue Principal portion of delinquent contracts, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of Delinquent contract overdue by more than 90 days, as a % of Initial Pool Principal

⁴ (Balance Cash flows payable to investor – Cash collateral available)/ Balance Pool Cash flows

⁵ (Pool Cash flows – Cash flows to PTC A1 – Originator's residual share)/ Pool Principal outstanding

Key rating drivers

Credit strengths

- High amortization of the pools leading to substantial build-up of credit enhancement
- Moderate collection efficiency observed in the pools

Credit challenges

- Performance of pools would remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile; further, pool performance would also be exposed to political and communal risks
- Performance of the pools would be exposed to any fresh disruptions caused by the Covid-19 pandemic.

Description of key rating drivers highlighted above

The performance of the pools has been moderate with a cumulative collection efficiency of more than 91% as of the April 2022 payout. There has been no instance of CC utilisation owing to moderate collections in the pools as well as the entire principal on the PTCs being promised on the pool's maturity date. The delinquencies in the harder bucket were low prior to the second wave of the pandemic with the loss-cum-90+ days past due (dpd) below 1% till the June 2021 payout. Delinquencies increased post the second and third waves of the pandemic with the loss-cum-90+ dpd in the range of 4.7% to 5.3%. The monthly collection efficiency has dipped below 90% for the pools in the March 2022 payout month though an improvement was seen in collections in the April 2022 payout month.

The pools are substantially amortised by over 77%, which has resulted in the build-up of the credit enhancement cover over the balance pool. The breakeven collection efficiency (BECE) for the PTCs has fallen below 31%, which is much lower than the observed monthly collections. Overall, the credit enhancement available for meeting the balance payouts to the investor is sufficient to upgrade the rating for the PTCs. ICRA will continue to monitor the performance of the transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations. Also, the performance of the pools would remain exposed to any fresh disruptions caused by the pandemic. Given the marginal borrower profile, the pools' performance would also be exposed to natural calamities and political and communal risks.

Performance of past rated pools: ICRA has rated 29 transactions originated by SSFL, of which two are live. The live pools have performed well with a cumulative collection efficiency of more than 91% and a loss-cum-90+ dpd in the range of 4.7-5.3% with nil CC utilisation as of the April 2022 payout.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of 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 the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pools are as given in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Kent Trust 03 2021	4.0% - 5.0%	6% - 9% p.a.
2	KARTHIKEYA 03 2021	3.5% - 4.5%	6% - 9% p.a.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors for both transactions.

Rating sensitivities

Positive/Negative factors – Given the short balance tenure of the PTCs, the ratings are unlikely to be revised.

Analytical approach

The rating action is based on the performance of the pools till March 2022 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Spandana Sphoorty Financial Limited (SSFL) was incorporated in 2003 as a non-banking financial company (NBFC) and it took over the microfinance operations of Spandana, a non-governmental organisation started by Ms. Padmaja Reddy in 1998. It 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 part of 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 Limited (Kedaara Capital) and fresh funding from three banks. The company completed its initial public offering (IPO) in August 2019.

Key financial indicators (audited)

Spandana Sphoorty Financial Limited (standalone)	FY2020	FY2021	3M FY2022*
Total income (Rs. crore)	1,217.0	1,365.2	389.4
Profit after tax (Rs. crore)	336.7	129.0	47.5
Total managed assets (Rs. crore)	8,006.0	9,635.3	9,452.6
Gross stage 3 (%)	0.4%	5.8%	4.7%
Net stage 3 (%)	0.1%	3.2%	2.4%

Source: Company & ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
1	Kent Trust 03 2021	PTC Series A1	47.42	6.27	May-16-2022 [ICRA]AA(SO)	May-27-2021 [ICRA]A+(SO)	Mar-12-2021 Provisional [ICRA]A+(SO)	-

Sr. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
2	KARTHIKEYA 03 2021	PTC Series A	199.98	18.59	May-16-2022 [ICRA]AA(SO)	May-27-2021 [ICRA]A+(SO)	Mar-22-2021 Provisional [ICRA]A+(SO)	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Kent Trust 03 2021	PTC Series A1	Moderately Complex
KARTHIKEYA 03 2021	PTC Series A	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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance	Coupon Rate (p.a.p.m.)	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Kent Trust 03 2021	PTC Series A1	March 2021	9.25%	November 2022	6.27	[ICRA]AA(SO)
KARTHIKEYA 03 2021	PTC Series A	March 2021	8.95%	December 2022	18.59	[ICRA]AA(SO)

* Scheduled maturity at transaction initiation; may change on account of prepayment

Source: Company

Annexure-2: 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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