

March 17, 2020

Spandana Sphoorty Financial Limited: Ratings for Pass Through Certificates (PTCs) issued under two micro loan pools originated by SSFL placed on watch with negative implications

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore ¹)	Principal O/s previous surv exercise (Rs. crore)	Amount O/s after Feb-20 Payout (Rs. crore)	Rating action
ABHILASHA 05 2019	PTC Series A	120.05	NA	32.51	[ICRA]AA-(SO) @; rating placed on watch with negative implications
CHETANA 06 2019	PTC Series A	120.29	NA	34.75	[ICRA]AA-(SO) @; rating placed on watch with negative implications

* Instrument details are provided in Annexure-1

Rationale

The ratings of the PTCs in the two transactions are placed under “rating watch with negative implications” following the recent notice from the Reserve Bank of India (RBI) putting Yes Bank Limited under moratorium until April 3, 2020. The cash collateral (CC) in these transactions in form of fixed deposit is with Yes Bank Limited. During the moratorium period, the cash collateral for the transaction cannot be utilised by the trustee to meet shortfall, if any, in the collections. ICRA notes that the Collection & Payout Account (C&P Account) has been shifted from Yes Bank Limited to another bank.

The performance of the rated pools has been strong evidenced by healthy collection efficiency and low delinquency levels. The pools comprise of receivables from micro loan contracts. The receivables have been assigned to the respective trusts at par and each trust has issued one series of PTCs backed by the same.

A summary of the performance of the pools till February 2020 payouts (January 2020 collection) month has been tabulated below.

¹ 100 lakh = 1 crore = 10 million
www.icra.in

Pool Performance Summary (till February 2020 payout)

Parameter	Abhilasha 05 2019	Chetana 06 2019
Months post securitisation	10	8
Pool Amortisation	71.94%	70.09%
PTC A amortisation	72.91%	71.10%
Cumulative Collection Efficiency ²	98.87%	97.94%
Loss cum 0+ dpd ³ (% of initial Pool)	1.23%	2.12%
0+ dpd ⁴ (% of Balance Pool)	2.38%	3.71%
Cumulative Cash Collateral Utilisation	0.00%	0.00%
Breakeven Collection Efficiency ⁵ for PTC A	59.29%	60.67%
Cumulative prepayment rate (% of initial Pool)	4.44%	3.57%
Cash collateral (% of Balance Pool)	21.38%	20.06%
Principal Subordination (% of Balance Pool) for PTC A	16.98%	16.91%
Excess Interest Spread (% of Balance Pool) for PTC A ⁶	6.05%	5.92%

Key rating drivers

Credit strengths

- Buildup of credit enhancement in the form of Principal Subordination, Excess Interest Spread (EIS) and Cash Collateral;
- Robust collection efficiency with low delinquency level observed in the pools

Credit challenges

- Cash collateral is with Yes Bank Limited (rated[ICRA]D) which has been put under moratorium by the RBI

Description of key rating drivers highlighted above

The performance of all the pools has been strong with cumulative collection efficiency of more than 97% after meeting February 2020 payouts. Any shortfall in the collections has been absorbed by the overcollateral/subordination and EIS in the structure and there has not been significant CC utilisation in any of the transactions till date. The pools have amortised by more than 70% have seen build-up in credit enhancement cover over the balance life of these transactions. Despite the strong collection performance of the pools, the ratings have been put on 'Watch with negative implications' due to the notice from the RBI putting Yes Bank Limited under moratorium until April 3, 2020. The cash collateral in these transactions in form of fixed deposit is with Yes Bank Limited. ICRA will continue to monitor the developments in this regard.

² (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

³ Inclusive of Unbilled and Overdue Principal portion of delinquent contracts, as a % of Initial Pool Principal

⁴ Inclusive of Unbilled Principal portion of delinquent contracts, as a % of Balance Principal

⁵ (Balance Cashflows payable to investor – Cash collateral available)/ Balance Pool Cashflows

⁶ (Pool Cashflows – Cashflows to PTC A – originator's residual share)/ Pool Principal outstanding

Performance of past rated pools: In the past, ICRA has rated 22 micro loan receivable pools originated by SSFL with the last pool being rated in December 2019. The performance of the live pools (which have completed at least two payouts) has been good with the cumulative collection efficiency exceeding 97% and low delinquencies after the February 2020 payouts.

Key rating assumptions

Not Applicable

Liquidity position for PTCs for both pools: Strong

The liquidity of the PTCs is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a cash collateral (CC). Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the cash collateral would cover the shortfalls in the promised cashflows to PTCs for Abhilasha and Chetana pools for a period of five and four months respectively.

Rating sensitivities

Positive triggers – Sustained strong collection performance of the underlying pool contracts and on shifting of CC in bank acceptable to ICRA.

Negative triggers – Sustained weak collection performance of the underlying pool or if the CC remains with Yes Bank Limited.

Analytical approach

The rating actions are based on the performance of the pools till February 2020 (payout month), the present delinquency profile of the pool contracts, performance expected over the balance pool tenure, credit profile of the CC bank, and the credit enhancement available in these transactions.

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 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), Spandana 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 March 2017 after a fresh equity investment led by Kedaara Capital Investment Managers Limited⁷ (Kedaara Capital) and fresh funding from three lenders. The key shareholders in the company as on August 16, 2019 are Kangchenjunga Limited (45.7%), Valiant

⁷ Through a special purpose vehicle called Kanchenjunga Limited

Mauritius Partners FDI Limited (6.0%), JM Financial Ltd group (5.2%) and the company's promoter Ms. Reddy (17.1%), who continues to be the Managing Director. The company had come out with its IPO in August 2019.

As on December 31, 2019, Spandana had operations in 17 states and Union Territories spanning 276 districts with a total loan portfolio outstanding of Rs. 5,748 crore. The active member base and number of field staff stood at 23.99 lakh and 5,415 respectively as on December 31, 2019.

The company has a rating of [ICRA]A- with stable outlook on its long-term debt programmes.

Key financial indicators

	FY2016	FY2017	FY2018	H1 FY2019
	(audited)	(audited)	(audited)	(IndAS)
Total Income	347.5	376.0	525.7	486.7
Profit after Tax	243.2	52.9	171.9	145.3
Net Worth	-606.9	537.2	984.2	1,675.2
Total Managed Portfolio [^]	2,018.8	2,094.6	4,013.9	4,535.2*
Total Managed Assets [^]	2,099.9	2,413.2	4,262.9	5,520.5*
Return on Average Managed Assets [^] (%)	10.9%	2.3%	5.1%	5.9%*
Return on Average Net Worth (%)	-33.5%	-152.0%	22.6%	21.9%
Gross NPA [^] (%)	39.7%	42.1%	25.9%	13.4%*
Net NPA [^] (%)	0.1%	2.9%	0.3%	0.1%*
Net NPA [^] / Net Worth	-0.2%	6.9%	0.7%	0.2%*
Managed Gearing (times)	-2.9	1.8	2.3	1.9
CRAR [^] (%)	-18.6%	49.0%	37.2%	38.8%

Note: Amounts in Rs. crore

[^]Includes non-yielding old AP portfolio of about Rs. 800 crore, which has 100% provision cover

*Includes non-yielding old AP portfolio of about Rs. 615 crore, which has 100% provision cover

Source: Spandana, ICRA research

Status of non-cooperation with previous CRA

Non-cooperation by Issuer

CRISIL has been consistently following up with Spandana Sphoorty Financial Limited (SSFL) for obtaining information through letters dated August 20, 2018 and September 20, 2018 among others, apart from telephonic communication and emails. However, the issuer has remained non cooperative.

'The investors, lenders and all other market participants should exercise due caution while using the rating assigned/reviewed with the suffix 'ISSUER NOT COOPERATING'. These ratings lack a forward looking component as it is arrived at without any management interaction and is based on best available or limited or dated information on the company'.

Detailed Rationale

Despite repeated attempts to engage with the management, CRISIL failed to receive adequate information on either the business performance or strategic intent of SSFL, which restricts CRISIL's ability to take a forward looking view on the entity's credit quality. CRISIL believes information available on SSFL is consistent with 'Scenario 2' outlined in the 'Framework for Assessing Consistency of Information with CRISIL BBB' rating category'. Therefore, CRISIL has migrated the rating on bank facilities of SSFL to 'CRISIL BBB-/Positive Issuer Not Cooperating'.

Subsequently, CRISIL has withdrawn the rating at the company's request and on receipt of no objection letters from respective banks. The withdrawal is in line with CRISIL's policy on withdrawal of bank loan ratings.

Any other information: None

Rating history for last three years

Current Rating (FY2020)							Chronology of Rating History for the past 3 years		
Instrument	Type	Rated amount (Rs. Crores)	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				17-Mar-20	10-Sep-19	09-May-19	-	-	-
1 Abhilasha 05 2019	PTC Series A	120.05	32.51	[ICRA]AA-(SO)@	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-	-

@: The symbol implies that the ratings are under watch with negative implications

Current Rating (FY2020)							Chronology of Rating History for the past 3 years		
Instrument	Type	Rated amount (Rs. Crores)	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				17-Mar-20	18-Sep-19	26-Jun-19	-	-	-
1 Chetana 06 2019	PTC Series A	120.29	34.75	[ICRA]AA-(SO)@	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-	-

@: The symbol implies that the ratings are under watch with negative implications

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

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate (p.a.p.m)	Scheduled Maturity Date*	Amount after Feb-20 payout (Rs. crore)	Current Rating
ABHILASHA 05 2019	PTC Series A	May 2019	9.65%	February 2021	32.51	[ICRA]AA-(SO)@
CHETANA 06 2019	PTC Series A	June 2019	10.10%	April 2021	34.75	[ICRA]AA-(SO)@

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

@: The symbol implies that the ratings are under watch with negative implications

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Sushant Vanmali

+91 22 6114 3436

sushant.vanmali@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6169 3304

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (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) 2556 0194/ 6606 9999

© Copyright, 2020 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