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Spandana Sphoorty Financial Limited: Rating confirmed as final for pass through certificates (PTCs) issued under a micro loan securitisation transaction originated by Spandana Sphoorty Financial Limited (Spandana)

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Kartikeya 12 2019	PTC Series A	124.97	[ICRA]A(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In January 2020, ICRA had assigned Provisional [ICRA]A (SO) rating to PTC Series A issued by Kartikeya 12 2019. ICRA has confirmed the provisional ratings assigned to PTCs issued by Kartikeya 12 2019 trust as final, as tabulated above. The PTC is backed by a micro loan receivables originated by Spandana Sphoorty Financial Limited (Spandana). 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 the excess interest spread (EIS) amounting to around 12.3% of the pool principal amount for PTC Series A
- Further credit support in the transaction is available through subordination of 11.00% of pool principal for PTC Series A followed by a Cash Collateral (CC) equivalent to 5.50% of the initial pool principal amount
- Absence of overdue contracts as on pool cut-off date and moderate seasoning at 18.8 weeks compared to balance pool tenure of 92 weeks

Credit challenges

- Moderate geographical concentration with top 3 states contributing to 53.02% of the initial pool principal amount
- Presence of moderate share of first loan cycle borrowers at 47.61%
- Performance of pool 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
- Uncertainty arising from the nationwide lockdown due to Covid-19 outbreak may lead to near-term stress on pool performance

Description of key rating drivers highlighted above

The first line of support for PTC Series A in the transaction is in the form of subordination of 11.00% of the pool principal (includes over collateralization). An important feature of the structure in this transaction is that any collection in excess

of the promised interest payouts to PTC Series A would be first utilised for payment of expected principal of PTC Series A and the remaining would be passed on to the originator on a monthly basis.

Cash collateral of 5.50% of the initial pool principal provided by Spandana 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 pool consists of loans that are moderately seasoned with weighted average seasoning of 18.8 weeks and the door to door residual tenure of the contracts is moderate at 92 weeks. The geographical concentration of the loan contracts in the current pool is moderate with top 3 states constituting 53.02% of the pool principal.

ICRA notes that the PTC investor in the transaction has provided approval for extension of moratorium for underlying contracts for two months (April and May collections) in line with the 'Covid-19 Regulatory Package' announced by the Reserve Bank of India (RBI) on March 27, 2020. Further, as per the investor approvals, the credit enhancement available would not be used for meeting promised investor payouts during May 2020 and June 2020 payouts. The status on extension of moratorium by the investors for additional three months (June 2020 to August 2020 collections) as allowed by the RBI will also be a key monitorable for these transactions.

Performance of past rated pools: In the past, ICRA has rated 23 micro loan receivable pools originated by Spandana with the last pool being rated in February 2020. The performance of the live pools (which have completed at least two payouts) has been good with the cumulative collection efficiency exceeding 90% and with the delinquencies being low after the April 2020 payouts.

Key rating assumptions

ICRA's cash flow modelling for rating Asset backed securities (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 4.0% - 5.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 6.0% - 9.0% per annum. Further, the ongoing nationwide lockdown and subsequent uncertainty around macro level economic activity could lead to near-term stress on pool performance.

Liquidity position: Strong

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. This structural feature imparts significant liquidity in the transaction, as even a small amount of collections in the underlying pool contracts would be sufficient to meet the promised PTC payouts.

Additionally, there is cash collateral available in the transaction amounting to 5.50% of the pool principal amount. The cash collateral is adequate to cover promised interest payouts due for six months to the PTC Series A investors even in an unlikely scenario of no collections in the pool.

Rating sensitivities

Positive triggers – Sustained strong collection performance of the underlying pool contracts (>95%), leading to lower than expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement (CE).

Negative triggers – Sustained weak collection performance of the underlying pool (Monthly collection efficiency <90%) leading to higher than expected delinquency levels and CE utilization levels

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.

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 (Spandana) 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 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.

As on March 31, 2020, Spandana had operations in 18 states and Union Territories spanning 280 districts with a total loan portfolio outstanding of Rs. 6,661 crore (excluding the fully-provided AP portfolio). The active member base and number of credit assistants stood at 25.07 lakh and 5,943, respectively, as on March 31, 2020. The company has a rating of [ICRA]A- with stable outlook on its long-term debt programmes.

Key financial indicators (Ind-AS)

	FY2019	FY2020
Total Income (Rs. crore)	1,022.6	1,217.0
Profit after Tax (Rs. crore)	308.8	336.7
Net Worth (Rs. crore)	1,886.4	2,608.1
Total Managed Portfolio (Rs. crore)	4,269.2	6,660.8
Total Managed Assets (Rs. crore)	5425.6	8,006.0
Return on Managed Assets (%)	6.1%	5.0%
Return on Net Worth (%)	18.8%	15.0%
Managed Gearing (times)	1.6	1.8
Gross NPA (%)	8.0%	0.4%
Net NPA (%)	0.0%	0.1%

All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
1 Kartikeya 12 2019	PTC Series A	124.97	124.97	08 July 2020 [ICRA]A(SO)	02 January 2020 Provisional [ICRA]A(SO)	-	-

*Initial Ratings assigned

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 Rated (Rs. crore)	Current Rating
Kartikeya 12 2019	PTC Series A	December 2019	8.75%	October 2021	124.97	[ICRA]A(SO)

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

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About ICRA Limited:

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