

Sonata Finance Private Limited

February 08, 2019

Summary of rated instruments

Trust Name	Instrument*	Rated Amount (Rs. Crore)	Rating Action
Vivriti Robben 01 2019	PTC Series A1	29.35	Provisional [ICRA]A(SO) assigned
	PTC Series A2	0.99	Provisional [ICRA]BBB+(SO) assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned Provisional [ICRA]A(SO) rating to PTC Series A1 and Provisional [ICRA]BBB+(SO) rating to PTC Series A2 under a securitisation transaction originated by Sonata Finance Private Limited (Sonata). The PTCs are backed by a pool of Rs. 38.89 crore micro loan receivables (underlying pool principal of Rs. 32.98 crore).

Rationale

The provisional ratings are based on the strength of cash flows from the selected pools of contracts; the credit enhancement available in the form of (i) Cash collateral of 10.25% of the pool principal to be provided by the Originator, (ii) subordination of 11.00% of the pool principal for PTC Series A1 and subordination of 8.00% of pool principal for PTC Series A2, and, (iii) entire Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure. The ratings are subject to fulfilment 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 11.00% and 8.00% of pool principal for PTC Series A1 and A2 respectively;
- Further credit support in the transaction is available through subordination of the excess interest spread (EIS) amounting to around 11.73% of the pool principal amount for PTC A1 and 11.13% of the pool principal amount for PTC A2 followed by a Credit Collateral (CC) equivalent to 10.25% of the initial pool principal amount.
- The underlying contracts in the pool are current as on cut off date

Credit challenges

- High geographical concentration of the contracts in the pool
- Moderate seasoning and a moderate 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 11.00% of the pool principal (includes principal payable to PTC A2). After PTC A1 has been fully paid, subordination of 8.00% of the pool principal could be available for PTC A2. Additionally, EIS available in the structure will also provide credit enhancement support to the transaction. The EIS (around 11.73% of pool principal initially, based on indicated PTC yield for PTC A1 and of 11.13% for PTC A2) will flow back to the Originator after the promised and scheduled payouts to the PTCs have been made every month.

Cash collateral of 10.25% of the initial pool principal (Rs. 3.38 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. The pool consists of loans that are seasoned moderately with weighted average seasoning of 23.3 weeks, and have a moderate pre-securitisation amortisation of ~26.5%. The geographical concentration of the loan contracts in the current pool is high with top state i.e. Bihar constituting 87.0% of the pool principal and the top five districts constituting 45.3% of the pool principal.

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 5.00% - 6.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 1.0% - 3.0% per annum.

Liquidity Position:

As per the transaction structure, only the interest amount is promised to the PTCs holders on a monthly basis while the principal amount is promised on the scheduled maturity date for the transaction. This imparts significant liquidity to the transaction in the interim period. The outstanding cash collateral available in the transaction is sufficient to meet the promised interest payouts to the senior PTCs for a period of 13 months.

Performance of past rated pools: ICRA has rated 11 standalone pool originated by Sonata. The performance of the 5 live outstanding pools is characterised by moderate cumulative collection ratios of above 94% as on Dec-18 payout (Nov-18 collection month). There has been no CC utilisation in this pool till date.

Analytical approach

The rating action is based on the analysis of the past performance of Sonata's portfolio till September 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.

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

About the company:

Sonata Finance Private Limited (SFPL) is an NBFC-MFI. The company was incorporated in 1995 and registered as a non-deposit taking NBFC in 2001. The company's microfinance operations commenced in 2006 under the initiative of Mr. Anup Kumar Singh, who is the Managing Director of the company at present and had acquired SFPL in 2005 along with the promoter group. In the initial round of equity infusion, SFPL received funding with the single largest investor being Bellwether Microfinance Fund.

The company's registered office is in Lucknow (earlier in Allahabad). SFPL caters to the rural population, though it has some borrowers in semi-urban and urban areas. The company offers credit to economically backward women engaged in income-generating activities like processing and manufacturing activities, service activities and animal husbandry. Its key focus product is the income-generating group loan (IGL) for which it replicates the Grameen Bank model of lending. As on September 30, 2018, the company reported a managed portfolio of Rs. 1,273 crore spread across eight states in India - Uttar Pradesh (49%), Bihar (24%), Madhya Pradesh (18%), Haryana (4%), Rajasthan (2%), Uttarakhand (2%), Punjab (1%) and Maharashtra (0.4%).

During FY2018, SFPL reported a loss of Rs. 33.40 crore on a managed asset base of Rs. 1,323 crore vis-à-vis a net profit of Rs. 1.32 crore on a managed asset base of Rs. 1,023 crore during FY2017. During H1 FY2019, the company reported a profit of Rs. 6.37 crore on a managed asset base of Rs. 1,273 crore. The capitalisation profile was adequate with a gearing of 4.6 times on the managed book and CRAR above regulatory levels as on September 30, 2018.

ICRA has a rating outstanding of [ICRA]BBB(Stable) on the bank lines, NCD programme and subordinated debt programme of Sonata. The company reported 0+ and 30+ delinquency of 11.02% and 6.30%, respectively, as on Sep-18.

Key financial indicators (audited)

	FY2017	FY2018	H1-FY2019*
Total income (Rs. crore)	218.39	223.41	152.43
PAT (Rs. crore)	1.32	33.40)	6.37
Net worth (Rs. crore)	212.87	179.18	260.32
Total managed portfolio (Rs. crore)	1,023.48	1,323.26	1,273.24
Total managed assets (Rs. crore)	1,554.46	1,545.26	1,497.56
Return on managed assets (%)	0.09%	2.15%)	0.84%
Return on equity (%)	0.74%	17.04%)	5.80%
Gearing (times)	5.14	6.43	4.60
Gross NPA (%)	13.73%	8.29%	3.51%
Net worth/Managed advances (%)	20.80%	13.53%	21.45%
CRAR (%)	29.70%	17.41%	23.54%

* Based on limited review audit for H1 FY2019

Status of non-cooperation with previous CRA: CRISIL, October 2016

CRISIL Ratings in its rationale published on October 25, 2016, had suspended the ratings assigned to the bank facilities of Sonata on account of non-cooperation by Sonata at the time of review of the ratings.

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
				February 2019	-	-	-
1 Vivriti Robben 01 2019	PTC Series A1	29.35	29.35	Provisional [ICRA]A(SO)	-	-	-
	PTC Series A2	0.99	0.99	Provisional [ICRA]BBB+(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
Vivriti Robben 01 2019	PTC Series A1	February 2019	10.25%	Nov 2020	29.35	Provisional [ICRA]A(SO)
	PTC Series A2	February 2019	14.50%	Nov 2020	0.99	Provisional [ICRA]BBB+(SO)

[#] Calculated on XIRR basis

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

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About ICRA Limited:

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