

September 10, 2019

Spandana Sphoorty Financial Limited: ICRA confirms ratings for pass through certificates (PTCs) issued under a micro loan securitisation transaction originated by Spandana Sphoorty Financial Limited (Spandana), as final

Summary of rated instruments

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
ABHILASHA 05 2019	PTC Series A	120.05	Provisional rating of [ICRA]AA-(SO) confirmed as final

*Instrument details are provided in Annexure-1

Rationale

ICRA has confirmed the provisional ratings assigned to PTCs issued by ABHILASHA 05 2019 trust as final, as tabulated above. The PTCs are backed by a micro loan receivables originated by Spandana Sphoorty Financial Limited (Spandana).

In May 2019, ICRA had assigned Provisional [ICRA]AA-(SO) rating to PTC Series A issued by ABHILASHA 05 2019. 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 10.34% of the pool principal amount for PTC Series A
- Further credit support in the transaction is available through subordination of 14.00% of pool principal for PTC Series A followed by a Credit Collateral (CC) equivalent to 6.00% of the initial pool principal amount
- Favorable selection filters for the pool like absence of overdue contracts as on pool cut-off date, absence of contracts from districts which were severely impacted on the account of demonetization or August 2018 floods in the state of Kerala

Credit challenges

- The pool has moderate state level concentration with the top three states contributing to 60.21% of pool principal
- The pool has 20.74% share emanating from the states of Maharashtra and Karnataka which were impacted by demonetization

Description of key rating drivers highlighted above

The first line of support for PTC Series A in the transaction is in the form of EIS of 10.34% of the pool principal. Further credit support in the transaction is available through subordination of 14.00% of the pool principal (includes over collateralisation). The monthly schedule of promised cashflows for PTC Series A will comprise payment of yield (at the pre-determined rate on the principal outstanding) and scheduled principal repayment. The excess interest collections

from the loan pool over the scheduled PTC Series A interest payouts will be passed on to the originator. Such amounts shall not be available for meeting future shortfalls. The excess principal collections from the loan pool over the scheduled PTC Series A payouts (owing to the over-collateral) will also be passed on to the originator. However, the excess principal collected owing to the over-collateral will be made available by the originator to meet any future collection shortfalls.

Cash collateral of 6.00% of the initial pool principal provided by SSFL 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 ~33.33 weeks and have a moderate pre-securitisation amortisation of ~35.05%. Additionally, the door to door residual tenure of the contracts is moderate at 94 weeks. The share of borrowers who have completed one or more loan cycle is high at 72.25%. The contracts have an average ticket size of Rs. 30,119 which is in line with industry standards.

The geographical concentration of the loan contracts in the current pool is moderate with top 3 states constituting ~60.21% of the pool principal and the top ten districts constituting ~24.96% 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 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.

Liquidity position: Strong

There is credit collateral available in the transaction amounting to 6.00% of the pool principal amount. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover two months of PTC payouts in full.

Performance of past rated pools: In the past, ICRA has rated 19 micro loan receivable pools originated by SSFL with the last pool being rated in July 2019. The performance of all the pools (which have completed greater than two payouts as on July 2019 payouts) has been good with the cumulative collection efficiency exceeding 98.5% and low delinquencies after the April 2019 payouts. The Vivriti Cavalieri 06 2018 transaction was impacted by the Kerala floods in August 2018 as the pool initially had higher contracts in Kerala. However, the pool showed improvement in the last three months with monthly collection efficiencies of more than 97%.

Rating sensitivities

Positive triggers – Sustained strong collection performance of the underlying pool contracts leading to low delinquency levels and increased cover available for the future PTC payouts from the credit enhancements

Negative triggers – Sustained weak collection performance of the underlying pool contracts leading to high delinquency levels and decreased cover available for the future PTC payouts from the credit enhancements

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 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 Limited¹ (Kedaara Capital) and fresh funding from three lenders. The key shareholders in the company as on August 17, 2018 on a diluted basis are Kedaara Capital and affiliates (60.4%), Valiant Mauritius Partners FDI (7.8%), JM Financial Ltd group (6.5%) and the company’s promoter Ms. Reddy (19.6%), who continues to be the Managing Director.

As on June 30, 2019, Spandana had operations in 17 states and Union Territories spanning 268 districts with a total loan portfolio outstanding of Rs. 4,876 crore. The active member base and number of field staff stood at 24.43 lakh and 4,941 respectively as on June 30, 2019.

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

¹ Through a special purpose vehicle called Kanchenjunga Limited

Key financial indicators

	FY2016 (audited)	FY2017 (audited)	FY2018 (audited)	H1 FY2019 (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

Instrument	Type	Current Rating (FY2020)		Date & Rating 10-September 2019	Date & Rating 09-May 2019	Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)			Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 ABHILASHA 05 2019	PTC Series A	120.05	120.05	[ICRA]AA-(SO)	Provisional [ICRA]AA-(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
ABHILASHA 05 2019	PTC Series A	May 2019	9.65%	February 2021	120.05	[ICRA]AA-(SO)

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

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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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