

January 14, 2020

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 rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Kartikeya 09 2019	PTC Series A	119.96	Provisional rating of [ICRA]A(SO) confirmed as final

*Instrument details are provided in Annexure-1

Rationale

ICRA has confirmed the provisional ratings assigned to PTCs issued by Kartikeya 09 2019 trust as final, as tabulated above. The PTCs are backed by a micro loan receivables originated by Spandana Sphoorty Financial Limited (Spandana).

In October 2019, ICRA had assigned Provisional [ICRA]A (SO) rating to PTC Series A issued by Kartikeya 09 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

- First line of support available for the transaction through subordination of 11.00% of the pool principal for PTC Series A
- Further credit support available through subordination of EIS of 10.61% of the pool principal for PTC Series A followed by a 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 25.2 weeks compared to balance pool tenure of 92 weeks

Credit challenges

- The pool has moderate state level concentration with the top three states contributing to 55.63% of pool principal
- Presence of moderate share of first loan cycle borrowers at 42.97%

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 25.20 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 55.63% of the pool principal.

Performance of past rated pools: In the past, ICRA has rated 22 micro loan receivable pools originated by Spandana 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 98% and with the delinquencies being low after the December 2019 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 4.0% - 8.0% per annum.

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 enhancements.

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 (SSFL) 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), SSFL 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 IPO in August 2019.

As on September 30, 2019, the company had operations in 17 states and union territories spanning across 272 districts with a total loan portfolio outstanding of Rs.5,297.7 crore (excluding fully provided AP portfolio). The active member base and number of credit assistants stood at 24.1 lakh and 5,143 respectively as on September 30, 2019.

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

Key financial indicators (IndAS)

	FY 2018	FY 2019	H1 FY2020 (P*)
Total Income (Rs. Crore) [@]	583.1	1,022.6	595.0
Profit after Tax (Rs. Crore)	188.0	308.8	133.1
Net Worth (Rs. Crore)	1,390.7	1,886.4	2,367.6
Total Managed Portfolio (Rs. Crore) [#]	3,166.3	4,269.2	5,297.7
Total Managed Assets (Rs. Crore)	4,634.7	5,425.6	6,639.6
Return on Managed Assets (%)	5.3%	6.1%	4.4%
Return on Net Worth (%)	19.5%	18.8%	12.5%
Gearing (times)	1.7	1.6	1.3
Gross NPA (%)	21.7%	8.0%	1.7%
Net NPA (%)	0.2%	0.0%	0.1%

Source: Company financial statements; Note: Amounts in Rs. Crore; P*- Provisional; # excluding fully provided AP portfolio
@excluding income from securitization

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	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating*	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
1	Kartikeya 09 2019	PTC Series A	119.96	119.96	14 January 2020	03 October 2019	-	-	-
				[ICRA]A(SO)	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 09 2019	PTC Series A	September 2019	9.10%	July 2021	119.96	[ICRA]A(SO)

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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sushant Vanmali

+91 22 6114 3436

sushant.vanmali@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@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:

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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

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