

Press Release

Subhlakshmi Finance Private Limited – Theo 11 2021

November 23, 2021



Rating Assigned

Pass Through Certificates (PTCs)	Rs. 11.25 Cr
Long Term Rating	ACUITE PROVISIONAL BBB(SO) (Assigned)

Rating Rationale

Acuité has assigned the rating of '**ACUITE PROVISIONAL BBB(SO)**' (**read as ACUITE Provisional triple B (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 11.25 Cr issued by Theo 11 2021 (Trust) under a securitisation transaction originated by Subhlakshmi Finance Private Limited (SFPL) (The Originator). The PTCs are backed by a pool of unsecured business loans with principal outstanding of Rs. 13.08 Cr (including Rs. 1.83 Cr of over collateralisation).

The rating addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date, in accordance with the transaction documentation. The transaction is structured at par.

The rating is based on the strength of cash flows from the selected pool of contracts; the credit enhancement is available in the form of

- (i) Over collateralisation of 14.0% of the pool principal;
- (ii) Cash collateral of 9.00% of the pool principal; and
- (iii) Excess Interest Spread of Rs. 1.30 Cr. i.e. 9.96 % of the pool principal

The rating of the PTCs is provisional and shall be converted to final rating subject to the execution of the following documents:

1. Trust Deed
2. Deed of Assignment
3. Servicing Agreement
4. Legal Opinion
5. Final Term Sheet

About the Originator

Subhlakshmi Finance Private Limited (SFPL) was originally incorporated in 1996 as Pepsu Capital Services Private Limited. In 2016, the promoters acquired Pepsu Capital Services Private Limited and renamed it to SFPL which commenced operation in January 2017 and is engaged in extending credit to micro enterprises, small enterprises along with business loans to individuals.

SFPL is promoted by Mr. Sanjeev Yadav (CEO and Executive Director) and Mr. Bipin Sharma (CFO and Executive Director) who have over two decades of experience in the financial services industry and have been associated with leading player in the microfinance industry.

SFPL has presence in the northern States of India having presence in seven states namely Haryana, Delhi,

Punjab, Uttar Pradesh, etc. The company operates through a network of 50 branches as on March 31, 2021. The promoters intend to increase its branch network in the state of Rajasthan & Madhya Pradesh in FY2022. The company is engaged in financing of Micro Enterprise Loans, SME, Business Loan, LAP and Insured Cattle Loan.

The company's AUM has decreased to Rs. 144.75 Cr as on March 31, 2021 from Rs. 157.86 Cr as on March 31, 2020. It has further decreased to Rs. 132.12 as on August 31, 2021, due to the impact of the second wave of the pandemic. SFPL's GNPA stood at 0.77% as on March 31, 2021 as against 0.27% as on March 31, 2020, and the company's NNPA was 0.69% as on March 31, 2021 as compared to 0.25% as on March 31, 2020. The company's reported PAT of Rs. 1.08 Cr as on March 31, 2021 as compared to Rs. 3.32 Cr as on March 31, 2020.

Assessment of the pool:

SFPL has unsecured MSME Asset Under Management of Rs. 129.20 Cr as on September 30, 2021. The current pool being securitised comprises 10.12% of the unsecured MSME AUM.

The underlying pool in the current Pass Through Certificate (PTC) transaction comprises of unsecured business loans extended towards 5,633 borrowers, with an average ticket size of Rs. 39,050, minimum ticket size of Rs. 25,000 and maximum of Rs. 60,000, indicating significant granularity. The current average outstanding per borrower stands at Rs. 23,214. The weighted average original tenure for pool is of 18.45 months (minimum 14 months & maximum 19 months). The pool has weighted average seasoning of 6.06 months (minimum 3 months seasoning and maximum of 12 months seasoning). Hence, the pool is fairly seasoned. The pool under consideration was not under moratorium and all the loans are current as on pool cut-off date, September 30, 2021. Furthermore, all the loans have remained current since origination.

The pool's geographical concentration is moderate. 39.50% of the borrowers are concentrated in Haryana followed by 29.95% in Punjab and 25.29% in Uttar Pradesh. The loans belong to the categories of micro-enterprise loans (72.93%) and small enterprise loans (27.07%). The top 10 borrowers of pool constitute 0.38% of the pool principal outstanding.

Credit Enhancements (CE)

The transaction is supported in the form of

- (i) Over collateralisation of 14.0% of the pool principal;
- (ii) Cash collateral of 9.00% of the pool principal; and
- (iii) Excess Interest Spread of Rs. 1.30 Cr. i.e. 9.96 % of the pool principal

Transaction Structure:

The transaction is structured at par. The rating addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date, in accordance with transaction documentation.

Assessment of Adequacy of Credit Enhancement:

Acuite has arrived at a base case delinquency estimate of 4.5% – 5.5% in respect of the loan assets being securitised. Acuite has further has applied appropriate stress factors to the base loss figures to arrive at the

final loss estimates and consequently the extent of credit enhancement required. The final loss estimates also consider the risk profile of the particular asset class i.e. unsecured loans, the borrower strata, economic risks and the demonstrated collection efficiency over the past few months. Acuité has also considered the track record of operations of the originator and certain pool parameters while arriving at the final loss estimate. Acuité has accounted for the probable impact of Covid19 in the transaction for its analysis.

Legal Assessment:

The provisional rating is based on a draft term sheet. The conversion of rating from provisional to final, shall include, besides other documents, the legal opinion to the satisfaction of Acuité. The legal opinion shall cover, adherence to RBI guidelines, true sale, constitution of the trust, bankruptcy remoteness and other related aspects.

Key Risks

Counterparty Risks:

The pool has average ticket size of Rs. 39,050, minimum ticket size of Rs. 25,000 and maximum of Rs. 60,000. Considering the vulnerable credit profile of the borrowers, the risk of delinquencies/defaults are elevated. These risks of delinquencies are partly mitigated, considering the efficacy of the originator's origination and monitoring procedures.

Concentration Risks:

Since the pool is considerably granular, i.e. underlying assets in the pool are in nature of unsecured business loans to 5,633 borrowers, hence the risk is significantly mitigated. However, there is moderate geographical concentration in the pool, since 39.50% of the borrowers are concentrated in Haryana followed by 29.95% in Punjab and 25.29% in Uttar Pradesh, which is partially mitigated as the pool is spread across 31 branches.

Prepayment Risk:

The pool is subject to prepayment risks since rate of interest is significantly high and borrowers may be inclined to shift to low cost options (based on availability). Prepayment risks are partially mitigated by prepayment penalty levied by the company for pre-closures. In case of significant prepayments, the PTC holders will be exposed to interest rate risks, since the cash flows from prepayment will have to be deployed at lower interest rates.

Servicing Risk

There is limited track record of servicing PTCs, since this one of the initial PTC transactions for the originator.

Commingling Risk

The transaction is subject to commingling risk since there is a time gap between last collection date and transfer to payout account.

Regulatory Risk

In the event of a regulatory stipulation impacting the bankruptcy remoteness of the structure, the payouts to the PTC holders may be impacted.

Liquidity Position – Adequate

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to 9.0% of the pool principal. The PTC payouts will also be supported by an internal credit enhancement in the form of over collateralisation (14.00 % of pool principal) and excess interest spread (9.96 % of pool principal).

Key Rating sensitivity

- Collection performance of the underlying pool
- Credit quality of the underlying borrowers
- Decrease in cover available for PTC payouts from the credit enhancement

Material Covenants

The following covenant is included in the transaction structure:

On each Payout Date the amounts present in the collection and payment account by way of:

- proceeds realised by the Trustee from the Receivables in the Collection Period immediately preceding the relevant Payout Date and deposited in the collection and payment account by the Servicer;
- any amounts then available in the collection and payment account; and
- amounts drawn, to the extent necessary, from the Credit Enhancement and transferred to the collection and payments account in accordance with the Transaction Documents, shall be utilized by the Trustee as per the waterfall mechanism

Outlook: Not applicable

Key Financials – Originator - Standalone

Particulars	Unit	FY21 (Actuals)	FY20 (Actuals)
Total Assets	Rs. Cr.	149.47	131.72
Net Interest Income	Rs. Cr.	15.17	12.53
PAT	Rs. Cr.	1.08	3.32
Net Worth	Rs. Cr.	27.01	23.33
Return on Average Assets (RoAA)	(%)	0.77	2.87
Return on Average Net Worth (RoNW)	(%)	4.31	15.34
Debt to Equity ratio	Times	4.23	4.20
GNPA	(%)	0.77	0.27
NNPA	(%)	0.69	0.25

Status of non-cooperation with previous CRA (if applicable):

Not Applicable

Any other information

None

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuité will withdraw the existing provisional rating and concurrently assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

In the absence of the pending steps/ documents the PTC structure would have become null and void, and Acuité would not have assigned any rating.

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Securitised transactions - <https://www.acuite.in/view-rating-criteria-48.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

None

***Annexure – Details of instruments rated**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not applicable	Series A1 PTC	Not applicable	Not applicable	Not applicable	11.25	ACUITE PROVISIONAL BBB(SO) (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in KanjurMarg, Mumbai.

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