

## Press Release

Satin Finserv Limited - Nimbus 2023 SBL Wenger

April 28, 2023



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Pass Through Certificates (PTCs)	7.03	Provisional   ACUITE A-   SO   Assigned	-
Total Outstanding Quantum (Rs. Cr)	7.03	-	-

## Rating Rationale

Acuite has assigned the long term rating of '**ACUITE PROVISIONAL A-(SO)**' (read as **ACUITE Provisional A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 7.03 Cr issued by NIMBUS 2022 SBL WENGER (Trust) under a securitisation transaction originated by Satin Finserv Ltd (SFL) (The Originator). The PTCs are backed by a pool of secured MSME loans with principal outstanding of Rs. 8.03 Cr. 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) Subordinated equity tranche of 12.50% of the pool principal;
- (ii) Cash collateral of 5.00% of the pool principal; and
- (iii) Excess Interest Spread of 22.52 % 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

Incorporated in 2018, SFL is a 100 percent subsidiary of SCNL, the flagship company of Satin group. SFL obtained its license from RBI in 2019. SFL is engaged in the business of providing various financial services to entrepreneurs, MSMEs and individual businesses, as well as ending to other MFI companies through its 18 branches across 10 states with 7858 borrowers as on December 31, 2022. SFL offers products in the retail segment, with ticket size upto Rs. 3.5 Lakh and wholesale segment, with ticket size up to Rs. 5 Cr.. 67.13 % of SFL's portfolio consisted of retail products and the rest in wholesale segment, as on December 31, 2022. The company will be focusing on the retail segment for the near future.

## Assessment of the pool

The underlying pool in current Pass-Through Certificate (PTC) transaction comprises of secured MSME loans extended towards 539 individual borrowers. With an average ticket size of Rs. 1.85 lakhs, minimum ticket size of Rs. 31,300 and maximum of Rs. 5.2 lakhs. Current average outstanding per borrower stands at Rs. 1.49 lakhs. The weighted average original tenure for pool is of 43.65 months (minimum 36 months & maximum 60 months). The pool has weighted average seasoning of 11.63 months (minimum 7 months seasoning and maximum of 16 months seasoning). None of the loans in the pool had availed moratorium. All the customers in the selected pool are CURRENT as of the cut-off date. None of the customers in the pool have gone into the non-current bucket since origination.

**Geographical constitution:** 41.30% of these borrowers are concentrated in Haryana followed by 20.31% in Punjab and 16.44% in Gujarat. The top 10 borrowers of pool constitute 3.5% of the pool principal O/s.

### **Credit Enhancements (CE)**

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) Subordinated equity tranche of 12.50% of the pool principal;
- (ii) Cash collateral of 5.00% of the pool principal; and
- (iii) Excess Interest Spread of 22.52 % of the pool principal

### **Transaction Structure**

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.

### **Assessment of Adequacy of Credit Enhancement**

Acuité has arrived at a base case delinquency estimate of 4.0% – 5.0% in respect of the loan assets being securitised. Acuité has further 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, the borrower strata, economic risks and the demonstrated collection efficiency over the past several months. Acuité has also considered the track record of operations of the originator and certain pool parameters while arriving at the final loss estimate. The PTC payouts will also be supported by internal credit enhancement in the form of equity tranche and excess interest spread.

### **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. 1.85 lakhs, minimum ticket size of Rs. 31,300. and maximum of Rs. 5.2 lakhs. 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 539 borrowers, hence the risk is moderately mitigated. However, there is considerable geographical concentration in the pool, since 41.30% of these borrowers are concentrated in Haryana followed by 20.31% in Punjab and 16.44% in Gujarat, which is partially mitigated as the pool is spread across various branches. The top 10 borrowers of pool constitute 3.5% of the pool principal O/s.

### Servicing Risk

There is limited track record of servicing PTCs, since this one of the initial PTC transactions for the originator. Also, the vintage of the originator in this portfolio is low. Therefore, the servicing risk for the transaction remains high.

### 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.

### 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.

### Commingling Risk

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

### Outlook - Not Applicable

### Key Rating sensitivity

If the stress factor for the transaction is increased by 10%, the rating of the transaction would not get impacted.

### 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.

### Liquidity Position

#### Adequate

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to 5.0% of the pool principal. The PTC payouts will also be supported by an internal credit enhancement in the form of equity tranche (12.50% of pool principal) and excess interest spread.

### Key Financials - Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	185.64	140.70
Total Income*	Rs. Cr.	20.66	20.41
PAT	Rs. Cr.	1.81	4.78
Net Worth	Rs. Cr.	108.29	106.46
Return on Average Assets (RoAA)	(%)	1.11	3.54
Return on Average Net Worth (RoNW)	(%)	1.69	4.59

Total Debt/Tangible Net worth (Geraing)	Times	0.71	0.30
Gross NPA	(%)	4.28%	1.50%
Net NPA	(%)	3.29%	0.78%

### Status of Non Cooperation with the Previous CRA (If Applicable)

Not Available

### Any other information

Not applicable

### Supplementary disclosures for Provisional Ratings

#### 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.

#### 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.

#### 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>

Explicit Credit Enhancement - <https://www.acuite.in/view-rating-criteria-49.htm>

Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria53.htm>

#### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

#### Rating History

Not applicable

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Pass Through Certificate	Not Applicable	Not Applicable	Not Applicable	Highly Complex	7.03	Provisional   ACUITE A-   SO   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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