

October 14, 2020

Visage Holdings & Finance Pvt. Ltd.: Rating confirmed as final for PTCs issued under a small business loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Northern Arc 2020 SBL Mihira	PTC Series A1	14.73	[ICRA]BBB-(SO); Provisional rating confirmed as final

*Instrument details are provided in Annexure-I

Rationale

In September 2020, ICRA had assigned Provisional [ICRA]BBB-(SO) rating to pass-through certificates (PTC) Series A1, respectively, issued by Northern Arc 2020 SBL Mihira. The PTCs are backed by a pool of Rs. 19.35-crore small business loan receivables (underlying pool principal of Rs. 15.67 crore) originated by Visage Holdings & Finance Pvt. Ltd. (VHFPL/Kinara). As the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit strengths

- Availability of CE in the form of principal subordination, EIS and CC
- Absence of overdue contracts as on pool cut-off date
- None of the borrowers in the pool have availed a moratorium

Credit challenges

- Moderate geographical concentration of the contracts in the pool at the district level and high concentration of the pool at the state level;
- Uncertainty on the performance of the pool post moratorium period due to Covid-19 pandemic

Description of key rating drivers highlighted above

The first line of support for the PTCs in the transaction is in the form of a subordination of 6.00%. Further credit support is available in the form of an EIS of 14.54% and a CC of 12.00% of the initial pool principal. The CC will, however, be in the form of an unfunded CE facility provided by VHFPL ([ICRA]BBB-(negative)), which limits the credit rating of the transaction to the current level.

As per the waterfall mechanism applicable for the transaction, the monthly cash flow schedule comprises promised interest payments to PTC Series A1 at the pre-determined interest rate on the principal outstanding. The principal repayment to PTC Series A1 is promised on the last payout date. During the tenure of PTC Series A1, the collections from the pool, after making the promised interest payouts, will be used to make the expected principal payouts to PTC Series A1. This principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. Prepayments in the pool will be utilised for the accelerated redemption of Series A1 PTCs. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

There are no overdues in the pool as on the cut-off date. No contracts in the pool have availed a moratorium as per the Reserve Bank of India's (RBI) COVID-19 – Regulatory Package announced on March 27, 2020, which is a positive. The pool consists of SBLs with moderate seasoning. The weighted average seasoning of the pool is around 13 months with a pre-securitisation amortisation of ~35% as on the cut-off date. The pool has moderate geographical concentration with contracts from six states. The top state, i.e. Tamil Nadu, accounted for ~36% of the overall pool principal. At the branch level, the top branch accounted for ~3% of the overall pool principal amount while the top 10 branches accounted for ~26%.

Performance of past rated pools: ICRA has a rating outstanding on three small business finance loan receivable pools originated by VHFPL. The performance of the live outstanding pools is characterised by cumulative collection ratios of more than 96% till the August 2020 collections. There has been no CC utilisation in these pools till date.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed security (ABS) transactions involves the simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for the mean shortfall and coefficient of variation (CoV) are arrived at on the basis of the values observed in the analysis of the originator's loan portfolio. The assumptions may also be adjusted to account for the current macroeconomic situation as well as any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 5.0-6.0%, with certain variability around it. The variability is based on the static pool analysis of VHFPL's portfolio as well as ICRA's observation on the performance of the same asset class for other originators. ICRA's estimation of the variability also takes into account VHFPL's shorter track record. The prepayment rate for the underlying pool is estimated at 8-12% per annum.

Liquidity position

PTC Series A1: Adequate

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available CE are expected to be adequate to meet the promised payouts to the PTC Series A1 investors.

Rating sensitivities

Positive triggers – Healthy performance of the underlying pool coupled with strong collections and an improvement in credit profile of VHFPL.

Negative triggers – Sustained weak collection performance of the underlying pool (Monthly collection efficiency <90%) leading to higher than expected delinquency levels and CE utilisation levels, or a deterioration in the credit profile of VHFPL.

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

Visage Holdings & Finance Pvt. Ltd. (VHFPL / Kinara) is a non-deposit taking non-banking financial company, incorporated in Delhi in 1996. The current promoters of the company acquired VHFPL in September 2011 and commenced lending operations in November 2011.

The company offers credit facilities to small businesses under the brand name Kinara Capital. It offers secured (hypothecation of machinery) and unsecured term loans and working capital facilities with a maximum ticket size of Rs. 25 lakh. Currently, the company operates in Karnataka, Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh, Telangana and Puducherry with its head office in Bangalore.

Key financial indicators (audited)

Particulars	FY2019 (Ind-AS)	FY2020 (Ind-AS)
Total Income	143.8	221.7
Profit after Tax	-7.7	18.1
Total Managed Assets	989.3	1,069.7
Gross NPA (%)	5.2%	6.1%
Net NPA (%)	3.0%	3.6%

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

S. No	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years		
		Type	Rated Amount	Amount Outstanding	Rating	Rating	FY2020	FY2019	FY2018
					14-Oct-2020	03-Sep-2020			
1	Northern Arc 2020 SBL Mihira	PTC Series A1	14.73	14.73	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)	-	-	-

Amount in Rs. crore

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 [#]	Scheduled Maturity Date [*]	Amount Rated (Rs. crore)	Current Rating
Northern Arc 2020 SBL Mihira	PTC Series A1	August 2020	12.75%	Oct 2022	14.73	[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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