

May 15, 2025

Unity Small Finance Bank Limited: Rating confirmed as final for SNs backed by secured LAP loan receivables issued by Orion Series 1

Summary of rating action

Trust Name	Instrument*	Current rated amount (Rs. crore)	Rating Action
Orion Series 1	Series A1 SNs	76.84	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA had assigned a provisional rating to the securitisation notes (SNs) issued by Orion Series 1 under a securitisation transaction originated by Unity Small Finance Bank Limited {Unity SFB/Originator; rated [ICRA] A (Stable)}. The PTCs are backed by a pool of secured LAP loan receivables with an aggregate principal outstanding of Rs. 79.21 crore (pool receivables of Rs. 148.42 crore).

Since 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 rating has now been confirmed as final.

Pool Performance Summary

Parameter	Orion Series 1
Payout month	April 2025
Months post securitisation	5
Pool amortisation	11.8%
Series A1 SN Amortisation	12.2%
Cumulative collection efficiency ¹	99.2%
Cumulative prepayment rate	9.6%
Loss-cum 0+ days past due (dpd) ²	4.0%
Loss cum 30+ dpd ³	0.5%
Loss cum 90+ dpd ⁴	0.0%
Cumulative cash collateral utilisation	0.00%

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout and principal payout (97.00% of the pool principal billed). The balance principal (3.00% of the pool principal billed) is expected to be paid on a monthly basis until the maturity of Series A1 SNs. Any surplus excess interest spread (EIS), after meeting the promised and

¹ Cumulative collections / (Cumulative billings + Opening overdue at the time of securitisation)

² Principal outstanding on contracts aged 0+ dpd / Principal outstanding on the pool at the time of securitisation

³ Principal outstanding on contracts aged 30+ dpd / Principal outstanding on the pool at the time of securitisation

⁴ Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 SN principal. Following the payment of Series A1 SNs in full, the principal for the equity tranche is to be paid monthly on expected basis (to the extent of billing).

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 8.00% of the initial pool principal, amounting to Rs. 6.34 crore, to be provided by the Originator, (ii) principal subordination of 3.00% of the initial pool principal for Series A1 SNs and (iii) the EIS of 40.33% of the initial pool principal for Series A1 SNs.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 245 obligors, with the top 10 obligors accounting for ~13% of the pool principal as on the cut-off date, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb a part of the losses in the pool and provide support in meeting the securitisation notes (SNs) payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, all the contracts in the pool had never been delinquent during the last 12 months, which is a credit positive.

Seasoned contracts in the pool – The pool had an average amortisation of ~6% and average seasoning of ~13 months on the cut-off date. This reflects the repayment track record and buildup in borrower equity, which is a credit positive.

Contracts backed by self-occupied residential properties – Around 81% of the pool is backed by self-occupied residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top state, viz. Telangana, contributing ~68% to the initial pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Exposed to interest rate risk – The transaction is exposed to interest rate risk as the underlying pool has fixed rate loans, whereas the yield on the SNs is floating (linked to ICICI Bank's 1-year marginal cost of fund based lending rate (MCLR)).

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The performance of microfinance loans would also be exposed to political and communal risks.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting

collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.50% of the pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 6.5% to 24.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction name	Orion Series 1
Originator	Unity SFB
Servicer	Unity SFB
Trustee	Catalyst Trusteeship Limited
CC holding bank	ICICI Bank Limited
Collection and payout account bank	ICICI Bank Limited

Liquidity position: Superior

The liquidity for Series A1 SNs is superior after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement would be more than 7.0 times the estimated loss in the pool for Series A1 SNs.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (Unity SFB) could also exert pressure on the rating.

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	Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

Unity SFB is the 12th small finance bank (SFB) in India, promoted by the consortium of the Centrum Group and Resilient Innovations Private Limited. The Reserve Bank of India (RBI) granted in-principle approval to Centrum Financial Services Limited (CFSL), to set up an SFB under the general guidelines for the on-tap licensing of SFBs in the private sector, as a part of the revival/reconstruction of PMC Bank in June 2021. The licence to set up the SFB was issued in October 2021.

BharatPe acquired a 49% stake in Unity SFB while CFSL holds 51%. Further, as a part of this transaction, the entire business (assets and liabilities) of CFSL and Centrum Microcredit Limited (CML) was transferred to Unity SFB via a slump sale. CFSL serves as the holding company of Unity SFB with no other operations. Currently, Unity SFB primarily has the existing small and medium-sized enterprise (SME)/micro, small and medium enterprise (MSME)/supply chain/microfinance asset base of CFSL and CML and receives digital platform and technology support from BharatPe. Unity SFB commenced active operations from November 1, 2021 with an upfront equity base of Rs. 1,105 crore. As the second leg of this transaction, PMC Bank was amalgamated with Unity SFB in accordance with the RBI's scheme for the recovery/resolution of the same. This was completed on January 24, 2022.

Key financial indicators

Unity SFB	FY2023	FY2024	H1 FY2025
Total operating income	628 [^]	1,225	799
Profit after tax	35 [*]	439	219
Total assets	8,761	13,773	16,683
Gross NPA	45.83%	4.36%	4.15%
Net NPA	0.34%	0.63%	1.05%
CRAR	49.40%	36.40%	29.29%

[^] Includes net interest income and non-interest income

^{*} Before fair value changes

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Current Rating (FY2026)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Current Amount Rated (Rs. Crore)	Date & Rating in FY2026	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023
					May 15, 2025	November 27, 2024	-	-
1	Orion Series 1	Series A1 SNs	76.84	76.84	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 SNs	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](https://www.icra.in)

Annexure I: Instrument details

ISIN	Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
NA	Orion Series 1	Series A1 SNs	November 29, 2024	9.25%*	March 16, 2034	76.84	[ICRA]AA(SO)

* Floating; linked to ICICI's 1Y MCLR

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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