Ujjivan Small Finance Bank Limited

November 01, 2018

Summary of rated instruments

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Vivriti Nirvana 09 2018	PTC Series A1	139.45	Provisional [ICRA]AA-(SO) assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned Provisional [ICRA]AA-(SO) rating to PTC Series A1 under a securitisation transaction originated by Ujjivan Small Finance Bank Limited (Ujjivan). The PTCs are backed by a pool of Rs. 182.11 crore micro loan receivables (underlying pool principal of Rs. 160.29 crore).

Rationale

The provisional ratings are based on the strength of cash flows from the selected pools of contracts; the credit enhancement available in the form of (i) Cash collateral of 4.25% of the pool principal to be provided by the Originator, (ii) subordination of 13.00% of the pool principal for PTC Series A1 and, (iii) subordination of entire Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure. The ratings are subject to fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- The first line of support is available for the transaction through subordination of 13.00% of pool principal for PTC Series A1;
- Further credit support in the transaction is available through subordination of the excess interest spread (EIS) amounting to around 8.87% of the pool principal amount for PTC A1 followed by a Credit Collateral (CC) equivalent to 4.25% of the initial pool principal amount.
- Favourable selection filters for the pool like absence of overdue contracts, moderate seasoning of ~28.1 weeks and amortization of the contracts in the pool at ~29.1%.
- The share of borrowers in the pool with loan cycle 2 or higher is ~81% of pool principal.

Credit challenges

- The pool has slightly high state level concentration with the top state Tamil Nadu accounting for ~26% of the pool principal. However, there is relative diversity with top 5 districts contributing to 16% of pool principal;

Description of key rating drivers highlighted above:

The first line of support for PTC Series A1 in the transaction is in the form of subordination of 13.00% 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 A1 would be first utilised for payment of scheduled principal of PTC Series A1 and the remaining would be passed on to the originator on a monthly basis.

Cash collateral of 4.25% of the initial pool principal provided by Ujjivan 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 highly seasoned with weighted average seasoning of ~28.1 weeks and have a high pre-securitisation amortisation of ~29.1%. Additionally, the door to door residual tenure of the contracts is low at 87 weeks. The share of borrowers who have completed one or more loan cycle is low at only 19%. Borrowers who are in their 1st loan cycle are considered riskier as they have a limited payment track record. The contracts have an average ticket size of Rs. 31,781 which is in line with industry standards.

The geographical concentration of the loan contracts in the current pool is moderately high with top 3 states constituting ~53% of the pool principal, however at a district level the pool is diversified with the top ten districts constituting ~27% of the pool principal.

Key Rating Assumptions

ICRA's cash flow modelling for rating 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 2.0% - 5.0% per annum.

Analytical approach: The rating action is based on the analysis of the past performance of Ujjivan's portfolio and previously rated ICRA pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Links to applicable criteria:

Rating Methodology for Securitisation Transactions

About the company:

Ujjivan Small Finance Bank Limited (Ujjivan) commenced operations on February 01, 2017, post transfer of assets and liabilities from Ujjivan Financial Services Limited (UFSL). The assets transferred included a portfolio of about Rs.5,900 crore. UFSL which operated as an NBFC-MFI, is the holding company of Ujjivan and is listed on the National Stock Exchange and Bombay Stock Exchange.

Ujjivan is a 100% subsidiary of UFSL and is included in the Second Schedule of the Reserve Bank of India Act, 1934. As on March 31, 2018, Ujjivan's 464 branches was spread across 209 districts in 24 states. The bank had a total portfolio of Rs.7,560 crore and a deposit base of over Rs.3,700 crore.

The company has a rating of [ICRA]A+(Stable) for its Non Convertible Debenture Programme and [ICRA] A1+ for its Certificate of Deposits and Short-term Fixed Deposits, respectively, as on July 2018.

Key financial indicators (Ujjivan – Consolidated)

Fiscal	FY 2016 (audited)	FY 2017 (audited)	FY2018 (audited)
Total Income	1,027.6	1,397.6	1,581.7
Profit after Tax	177.2	207.7	7.3
Net worth	1,197.8	1,755.8	1,761.6
Total Managed Portfolio	5,388.6	6,379.5	7,560.0
Total Managed Assets	6,051.5	8,986.9	9,813.9
Return on Average Managed Assets (%)	3.5%	2.8%	0.1%
Return on Average Net worth (%)	18.3%	14.1%	0.4%
Gross NPA (%)	0.2%	0.3%	3.6%
Net NPA (%)	0.0%	0.0%	0.7%
Net NPA / Net worth	0.2%	0.1%	2.9%
Managed Gearing (times)	3.9	4.0	4.4
CRAR^ (%)	24.1%	18.3%	23.0%

Note: Amounts in Rs. crore
Source: Ujjivan, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating November 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Vivriti Nirvana 09 2018	PTC Series A1	139.45	139.45	Provisional [ICRA]AA-(SO)	NA	NA	NA

Complexity level of the rated instrument: Highly Complex

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
Vivriti Nirvana 09 2018	PTC Series A1	October 2018	10.10%	June 2020	139.45	Provisional [ICRA]AA-(SO)

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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