

June 13, 2022

Vaya Finserv Private Limited: Ratings upgraded for PTCs issued under microloan securitisation transaction originated by Vaya Finserv Private Limited

Summary of rating action

| Trust Name | Instrument* | Initial Rated Amount (Rs. crore) | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-----------------------------|---------------|----------------------------------|-----------------------------------|----------------------------------|---|
| Northern Arc 2021 MFI Picot | PTC Series A1 | 22.94 | NA | 8.95 | [ICRA]AA-(SO); Upgraded from [ICRA]A(SO) |
| | PTC Series A2 | 0.93 | NA | 0.93 | [ICRA]A(SO); Upgraded from [ICRA]BBB+(SO) |

*Instrument details are provided in Annexure-1

Rationale

ICRA has upgraded the ratings for the pass-through certificates (PTCs) issued under a securitisation transaction backed by a pool of microloan receivables originated by Vaya Finserv Private Limited. The receivables have been assigned to the trust, Northern Arc 2021 MFI Picot, at par and the trust has issued PTCs backed by the same. The ratings upgrade is on account of the high amortisation in the pool, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts in the transaction. Nonetheless, the ratings would remain exposed to any disruptions caused by the Covid-19 pandemic that could lead to lower-than-expected collections.

Pool performance summary (till April 2022 payout month)

| Particulars | Northern Arc 2021 MFI Picot |
|---|-----------------------------|
| Months post securitisation | 10 |
| Amortisation of pool | 52.73% |
| PTC amortisation – PTC A1 | 61.00% |
| PTC amortisation – PTC A2 | 0.00% |
| Cumulative collection efficiency ¹ | 99.22% |
| Loss-cum-30+ ² dpd (% of initial pool) | 2.66% |
| Loss-cum-90+ dpd (% of initial pool) | 1.07% |
| 30+ dpd ³ (% of balance pool) | 4.08% |
| 90+ dpd (% of balance pool) | 1.35% |
| Cumulative cash collateral utilisation | 0.00% |
| Cumulative prepayment rate | 2.28% |
| Breakeven collection efficiency ⁴ for PTC A1 | 55.73% |
| Breakeven collection efficiency for PTC A2 | 63.09% |
| Cash collateral (% of balance pool) | 12.69% |
| Principal subordination ⁵ (% of balance pool) for PTC A1 | 28.63% |
| Principal subordination (% of balance pool) for PTC A2 | 21.23% |

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

² Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a percentage of Initial Pool Principal

³ Inclusive of Unbilled Principal portion of contracts delinquent for more than 30 days, as a percentage of Balance Principal

⁴ (Balance Cash Flows payable to investor – Cash Collateral available)/ Balance Pool Cash Flows

Key rating drivers and their description

Credit strengths

- Substantial amortisation of the pools leading to increasing build-up of CE coverage
- Healthy collection efficiency observed in the pool

Credit challenges

- Performance of the pool would be exposed to any disruptions being caused by the Covid-19 pandemic.
- Performance of pool would also remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile; further, pool performance would also be exposed to political and communal risks

Description of key rating drivers highlighted above

The pool showed a healthy cumulative collection efficiency of more than 99% (including advance collections) in March 2022 (collection month). The loss-cum-30+ days past due (dpd) was reported at ~3% (as a percentage of the initial pool principal) as of the April 2022 payout. The breakeven collection efficiency of ~56% for PTC Series A1 and ~63% for PTC Series A2 was lower compared to the monthly collection efficiency and cumulative collection efficiency levels in the pool. The healthy collections and high pool amortisation of ~53% led to the significant build-up of the CE in the pool. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the ratings to the current levels in the transaction.

ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations. Also, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

Key rating assumptions

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

After making these adjustments, the expected loss and prepayments during the balance tenure of the pool are given in the table below.

| Sr. No. | Transaction Name | Expected Loss (% of initial pool principal) | Prepayment |
|---------|-----------------------------|--|------------|
| 1 | Northern Arc 2021 MFI Picot | 2.5-3.5% | 6-9% p.a. |

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. After PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC investors.

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 CE could lead to a ratings upgrade.

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher CE utilisation levels, could result in a ratings downgrade.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Rating Methodology for Securitisation Transactions |
| Parent/Group Support | Not Applicable |
| Consolidation/Standalone | Not Applicable |

About the company

Vaya Finserv Private Limited, incorporated in March 2014, is a non-banking financial company – microfinance institution (NBFC-MFI) with its registered office in Hyderabad. The company provides microloans under the joint liability group (JLG) model along with credit-linked insurance. Vaya was operating in 7 states through a network of 266 branches spread across 91 districts, catering to more than 4.8 lakh borrowers with a managed loan portfolio of Rs. 1,202 crore as on March 31, 2022.

Key financial indicators

| For the period ended As per | Mar-20 Ind-AS Audited | Mar-21 Ind-AS Audited | Mar-22 Ind-AS Provisional |
|-----------------------------------|-----------------------------|-----------------------------|---------------------------------|
| PAT | 7 | 10 | 12 |
| Total managed assets | 1,386 | 1,452 | 1,588 |
| Managed gearing (adjusted; times) | 3.8 | 2.6 | 3.9 |
| Gross NPA (%) | 0.9% | 2.8% | 3.1% |
| Net NPA (%) | 0.3% | 1.6% | 1.1% |

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

| | Instrument | Current Rating (FY2023) | | | | Chronology of Rating History for the Past 3 Years | | | |
|---|-----------------------------|-------------------------|--------------------------|--------------------------------|-------------------------|---|----------------------------|-------------------------|-------------------------|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2023 | Date & Rating in FY2022 | | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | | Jun 13, 2022 | Sep 21, 2021 | Jul 05, 2021 | | |
| 1 | Northern Arc 2021 MFI Picot | PTC Series A1 | 22.94 | 8.95 | [ICRA]AA-(SO) | [ICRA]A(SO) | Provisional [ICRA]A(SO) | - | - |
| | | PTC Series A2 | 0.93 | 0.93 | [ICRA]A(SO) | [ICRA]BBB+(SO) | Provisional [ICRA]BBB+(SO) | - | - |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---------------|----------------------|
| PTC Series A1 | Moderately Complex |
| PTC Series A2 | 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: www.icra.in

Annexure-1: Instrument details

| Trust Name | Instrument Name | Date of Issuance | Coupon Rate | Final Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|--------------------------------|-----------------|------------------|-------------|----------------------|--------------------------|----------------|
| Northern Arc 2021 MFI Picot | PTC Series A1 | Jun-21 | 10.03% | Mar-23 | 8.95 | [ICRA]AA-(SO) |
| | PTC Series A2 | | 14.50% | | 0.93 | [ICRA]A(SO) |

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

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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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