

August 02, 2022<sup>(Revised)</sup>

## Vistaar Financial Services Pvt Ltd: Provisional [ICRA]AA+(SO) assigned to SNs backed by small business mortgage loan receivables issued by Jiraiya Trust 07 2022

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Jiraiya Trust 07 2022	SN Series A1	29.13	Provisional [ICRA]AA+(SO); Assigned

\*Instrument details are provided in Annexure I

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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### Rationale

ICRA has assigned a Provisional [ICRA]AA+(SO) rating to SN Series A1 issued under a securitisation transaction originated by Vistaar Financial Services Pvt Ltd {VFSPL/Originator; rated [ICRA]A (Stable)/[ICRA]A1}. The securitisation notes (SNs) are backed by a pool of Rs. 63.04-crore small business mortgage loan receivables (underlying pool principal of Rs. 33.48 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 8.00% of the initial pool principal to be provided by VFSPL, (ii) over-collateralisation of 13.00% of the pool principal for SN Series A1 and (iii) the entire excess interest spread (EIS) in the structure, as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of CE in the form of subordination, EIS and cash collateral
- There are no overdue contracts in the pool
- Around 48% of the contracts in the pool have a CIBIL score of more than 750

#### Credit challenges

- High geographical concentration with top three states contributing to 76% of the pool principal
- Exposure to interest rate risk given that the yield on SN Series A1 is floating and the pool yield is fixed
- Pool's performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic

### Description of key rating drivers highlighted above

As per the transaction structure, the first line of support for SN Series A1 in the transaction is in the form of a subordination of 13.00% of the pool principal (includes SN Series A2 and over-collateralisation). As per the waterfall mechanism for the transaction, the monthly pool collections shall be used for meeting the promised payouts (defined as interest at predetermined yield and 87.00% of billed principal) to SN Series A1 and then the balance expected principal payouts to SN Series A1 (13.00% of billed principal). All prepayments would be passed on to SN Series A1. An important feature of the transaction is that the yield on SN Series A2 is residual (equivalent to EIS of 57.04%), thereby extending further support to the transaction.

In the event of a shortfall in meeting the promised SN payouts during any month, the trustee will utilise the CC to meet the shortfall. A CC of 8.00% of the initial pool principal provided by VFSPL acts as further CE in the transaction. In the event of a shortfall in meeting the promised SN payouts during any month, the Trustee will utilise the CC to meet the shortfall.

The underlying loans follow a monthly payment schedule. There are no overdues in the pool as on the cut-off date and none of the loans in the pool are restructured. The average pre-securitisation amortisation stood at ~10% as on the cut-off date. Further, ~48% of the contracts in the pool have a CIBIL score of more than 750. The pool has high geographical concentration with the top 3 states (Karnataka, Maharashtra and Andhra Pradesh) contributing ~76% to the initial pool principal amount. The interest rate for contracts in the pool is fixed while the SN yield is linked to external benchmark, thereby creating an interest rate risk in the structure. The performance of the pool would remain exposed to any fresh disruptions caused by the pandemic.

**Past rated pools' performance:** ICRA has rated 12 securitisation transactions with the underlying receivables originated by VFSPL. The matured pools reported a loss-cum-90+ days past due (dpd) of less than 5% with no CC utilisation till the last payout date. Four other pools are live as on date, which have a satisfactory cumulative collection efficiency while the cumulative CC utilisation was nil as of the June 2022 payout.

### Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and the rated pools as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.5-5.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0-18.0% per annum.

### Liquidity position: Strong

The liquidity of the rated transaction is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a CC amounting to 8.00% of the pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the SN payouts for a period of around 29 months.

### 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 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 CE utilisation levels, would result in a rating downgrade.

### Analytical approach

The rating action is based on the analysis of the performance of VFSPL's portfolio till June 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

## Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

## Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## About the company

VFSPL is a Bengaluru-based non-banking financial company (NBFC) catering to small businesses. It commenced operations in 2010 with a focus on microfinance (MF) loans. However, it shifted its focus to providing loans to micro, small and medium enterprises (MSMEs) in rural and semi-urban areas from April 2011 and stopped disbursing new MF loans from August 2011. The company mainly provides small business mortgage loans (SBMLs). Small businesses funded by VFSPL include kirana/general stores/shops, power/auto/handlooms, dairy and allied products, and small manufacturing units.

VFSPL is promoted by Mr. Brahmanand Hegde and Mr. Ramakrishna Nishtala, who have prior experience in the retail lending business. The company received capital of Rs. 25 crore from two private equity (PE) investors till March 2012. It subsequently raised additional capital of Rs. 40 crore as compulsorily convertible preference shares (CCPS) in FY2013 and Rs. 160 crore in Q1 FY2015. In FY2016, VFSPL received another capital infusion of about Rs. 250 crore from the existing investors. As of March 2022, VFSPL had 191 branches in 12 states/Union Territories, including Tamil Nadu, Karnataka, Maharashtra, Gujarat, Madhya Pradesh, Rajasthan, Odisha, Uttar Pradesh, Andhra Pradesh, Telangana, Haryana and Delhi.

### Key financial indicators (audited)

Vistaar Financial Services Pvt Ltd	FY2020	FY2021	FY2022
Total income	368.4	390.8	433.6
Profit after tax	45.0	64.8	74.2
Total managed assets <sup>1</sup>	2,104.4	2,438.0	2,936.7
Gross Stage 3	3.7%	3.2%	2.7%
Net Stage 3	2.5%	2.2%	1.9%

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

Sr. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					August 02, 2022				
1	Jiraiya Trust 07 2022	SN Series A1	29.13	29.13	Provisional [ICRA]AA+(SO)	-	-	-	

### Complexity level of the rated instrument

Instrument	Complexity Indicator
SN Series A1	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](http://www.icra.in)

<sup>1</sup> Total managed assets = Total assets + off-book assets under management

## Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate*	Maturity Date**	Amount Rated (Rs. crore)	Current Rating
Jiraiya Trust 07 2022	SN Series A1	July 2022	8.25%*	January 2037	29.13	Provisional [ICRA]AA+(SO)

\*Floating interest rate linked to RBI Repo

\*\*Scheduled maturity date at transaction initiation; may change on account of prepayments

## Annexure II: List of entities considered for consolidated analysis

Not applicable

## Corrigendum:

Document dated August 02, 2022 has been corrected with revision as detailed below:

Line has been modified in the “Description of key rating drivers highlighted above” section as follows - As per the transaction structure, the first line of support for SN Series A1 in the transaction is in the form of a subordination of 13.00% of the pool principal (includes SN Series A2 and over-collateralisation).

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