

November 03, 2022

Vaya Finserv Private Limited: Provisional [ICRA]A(SO) assigned to PTC Series A1 and Provisional [ICRA]A-(SO) assigned to PTC Series A2 backed by microfinance loan receivables issued by Sea Lion 09 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sea Lion 09 2022	PTC Series A1	33.48	Provisional [ICRA]A(SO); Assigned
	PTC Series A2	0.38	Provisional [ICRA]A-(SO); Assigned

*Instrument details are provided in Annexure I

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

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Vaya Finserv Private Limited (Vaya). The PTCs are backed by a pool of Rs. 43.08-crore microfinance loan receivables (underlying pool principal of Rs. 38.04 crore).

The provisional ratings are 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 10.00% of the pool principal to be provided by Vaya (originator), (ii) subordination/over-collateralisation of 12.00% of the pool principal for PTC Series A1 and 11.00% for PTC Series A2, and (iii) the entire excess interest spread (EIS) in the structure, as well as the integrity of the legal structure. The ratings are 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 EIS, over-collateralisation (subordination) and CC
- No overdue contracts in the pool as on the cut-off date
- Weighted average amortisation of ~42% and weighted average seasoning of ~13 months as on cut-off date

Credit challenges

- High geographical concentration with top state (Bihar) contributing ~69% to the initial pool principal amount
- Performance of pool would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; pool's performance would also be exposed to political and communal risks
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 12.0% of the pool principal (includes principal payable to PTC Series A2). After PTC Series A1 has been fully paid, a subordination of 11.0% of the pool principal (over-collateralisation) will be available for PTC Series A2. Further credit support is available in the form of an EIS for PTC Series A1 and PTC Series A2 of 9.1% and 8.9%, respectively, of the initial pool principal. A CC of 10.0% of the initial pool

principal, to be provided by Vaya, would act as further CE in the transaction. 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.

As per the transaction structure, the collections from the pool, after making the promised interest payouts to PTC Series A1 and PTC Series A2, will be used to make the expected principal payouts to PTC Series A1 till its redemption followed by the expected principal payout to PTC Series A2. The entire principal repayment to PTC Series A1 and PTC Series A2 is promised on the scheduled maturity date of the respective tranches. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on every payout date.

All prepayment amounts would be passed on to PTC Series A1 (till PTC Series A1 principal is not fully amortised) every month and its future payouts will be revised accordingly. After the maturity of PTC Series A1, the same would be passed on to PTC Series A2.

There are no overdues in the pool as on the cut-off date. The pool has high geographical concentration at the state level with the top state (Bihar) contributing 68.9% to the initial pool principal amount. At the district level, the top 5 districts account for 31.7% of the initial pool principal amount. The performance of the pool would be exposed to political and communal risks as well as natural calamities that may impact the income-generating capability of the borrower. Also, it would remain exposed to macro-economic shocks/business disruptions.

Past rated pools: ICRA has rated nine microfinance loan receivable PTC transactions originated by Vaya in the past. Four of these transactions are live as on date while the ratings for the other transactions have been withdrawn. The live pools have displayed strong collections with a cumulative collection efficiency of more than 99% and there has been nil CC utilisation in the transactions as of the September 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 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 performance of the originator's portfolio as well as the 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 3.5-5.5% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 6.0% per annum.

Liquidity position: Strong

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. 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 cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC Series A1 and PTC Series A2 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 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 Vaya's portfolio till September 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	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

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

The assigned ratings are 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 ratings 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 ratings, the provisional ratings will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

Vaya Finserv Private Limited, incorporated in March 2014, is a non-banking financial company – microfinance institution (NBFC-MFI) with its registered office in Hyderabad. It is promoted by Vaya Trusts, previously known as the SKS Mutual Benefit Trusts, and Mr. Vikram Akula who had founded and promoted SKS Microfinance (currently known as Bharat Financial Inclusion Limited), one of the earliest microfinance companies in India. The company provides microloans under the joint liability group (JLG) model along with credit-linked insurance. Its loans qualify for priority sector lending for banks. Vaya was operating in 7 states through a network of 266 branches spread across 91 districts, catering to more than 5.4 lakh borrowers with a managed loan portfolio of Rs. 1,272 crore as on August 31, 2022.

Key financial indicators

Vaya	FY2020	FY2021	FY2022
Total income	193	201	217
Profit after tax	7	10	13
Total managed assets	1,386	1,452	1,588
Gross stage 3 (%)	0.9	2.8	3.1
Net stage 3 (%)	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

	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
					November 03, 2022			
1	Sea Lion 09 2022	PTC Series A1	33.48	33.48	Provisional [ICRA]A(SO)	-	-	-
		PTC Series A2	0.38	0.38	Provisional [ICRA]A-(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 instruments 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 I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sea Lion 09 2022	PTC Series A1	November 2022	10.15%	July 2024	33.48	Provisional [ICRA]A(SO)
	PTC Series A2		13.00%		0.38	Provisional [ICRA]A-(SO)

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

Source: Company

Annexure II: 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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Branches



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