ICRA

November 27, 2024

Unity Small Finance Bank Limited: Provisional [ICRA]AA(SO) assigned to Series A1 SNs issued by Orion Series 1, backed by a pool of secured LAP receivables

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Orion Series 1	Series A1 SNs	76.84	Provisional [ICRA]AA(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**

Rationale

The securitisation notes (SNs) are backed by a pool of secured loan against property (LAP) receivables originated by Unity Small Finance Bank Limited {Unity SFB/Originator; rated [ICRA] A (Stable)} with an aggregate principal outstanding of Rs. 79.21 crore (pool receivables of Rs. 148.42 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

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 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 funds 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% 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.

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 analysis of the performance of Unity SFB's loan portfolio till September 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
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 a final rating 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 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.

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 (FY2025)			Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				November 27, 2024	-	-	-
1	**Orion Series 1**	Series A1 SNs	76.84	**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

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	Provisional [ICRA]AA(SO)

** Floating; linked to ICICI's 1Y MCLR*

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Anubhav Agrawal
+91 22 6114 3439
anubhav.agrawal@icraindia.com

Rushabh Gohel
+91 22 6114 3450
rushab.gohel@icraindia.com

Samratsingh Hazari
+91 22 6114 3400
samratsingh.hazari@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6169 3304
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

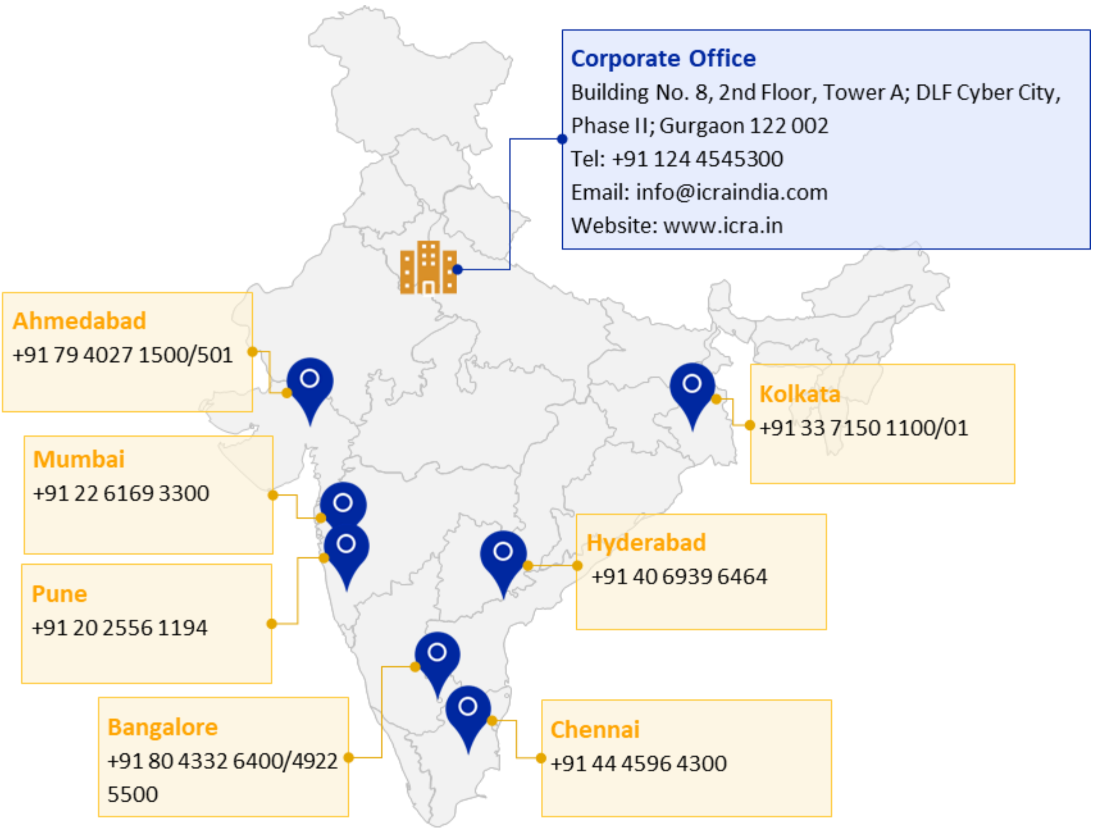
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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