

September 21, 2021

Vaya Finserv Private Limited: Ratings confirmed as final for PTCs backed by micro loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Northern Arc 2021 MFI Picot	PTC Series A1	22.94	[ICRA]A(SO); provisional rating confirmed as final
	PTC Series A2	0.93	[ICRA]BBB+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In July 2021, ICRA had assigned Provisional [ICRA]A(SO) and Provisional [ICRA]BBB+(SO) rating to pass-through certificate (PTCs) Series A1 and PTC Series A2 issued by Northern Arc 2021 MFI Picot. The PTCs are backed by receivables worth a Rs. 31.55-crore pool of micro finance loans (underlying pool principal of Rs. 26.52 crore) originated by Vaya Finserv Private Limited (Vaya). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said ratings have now been confirmed as final.

A summary of the performance of the pool after the August 2021 pay-out month has been provided below.

Parameter	Amounts
Months post securitisation	2
Pool principal amortisation	9.40%
PTC Series A1 amortisation	10.88%
PTC Series A2 amortisation	0.00%
Average monthly prepayment rate	0.03%
Cumulative collection efficiency	94.61%
Loss-cum-30+ dpd	1.53%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of CE in the form of Excess Interest Spread (EIS), over-collateralisation/subordination and CC
- No overdue contracts in the pool as on the cut-off date

Credit challenges

- High geographical concentration with top two states contributing ~93% to the initial pool principal amount
- Pool performance to remain exposed to any fresh disruptions due to the Covid-19 pandemic

- Performance of the pool would also remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, the pool's performance would be exposed to political and communal risks

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/over-collateralisation of 13.50% of the pool principal (includes the principal payable to PTC Series A2). After PTC Series A1 has been fully paid, over-collateralisation of 10.00% of the pool principal could be available for PTC Series A2. Further credit support is available in the form of an EIS of 12.44% for PTC Series A1 and 11.71% for PTC Series A2. A CC of 6.00% of the initial pool principal, to be provided by Vaya, would act as a further CE in the transaction. In the event of a shortfall in meeting the promised PTC pay-outs during any month, the trustee will utilise the CC to meet the shortfall.

As per the transaction structure, PTC Series A2 pay-outs are completely subordinated to PTC Series A1. The collections from the pool, after making the promised interest pay-outs to PTC Series A1, will be used to make the expected principal pay-outs to PTC Series A1, followed by the expected interest pay-outs to PTC Series A2. The entire principal repayment to PTC Series A1 is promised on the scheduled maturity date. Post the maturity of PTC Series A1, interest pay-outs will be promised to PTC Series A2 and all excess cash flows, after meeting the promised interest pay-outs on PTC Series A2, will be passed on for the expected PTC Series A2 principal pay-outs. The entire principal repayment to PTC Series A2 is promised on the scheduled maturity date. The EIS available, after meeting the scheduled PTC payments, shall flow back to the originator on every pay-out date subject to the predefined triggers.

There were no overdues in the pool as on the cut-off date. The pool had high geographical concentration with the top two states (Bihar and Tamil Nadu) contributing ~93% to the initial pool principal amount. At the district level, the top five districts accounted for ~30% 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 any disruptions that may arise due to the pandemic.

Past rated pool performance: Apart from current pool, ICRA has rated four microfinance loan receivables PTC transactions originated by Vaya in the past (between December 2019 and March 2021). Only one of these pools is live as on date while the ratings for the others have been withdrawn. The live pool has displayed moderate collections with a cumulative collection efficiency of 83% till the June 2021 pay-outs. The 30+ days past due (dpd; %) for the pool is high at 8.69% on account of the impact of the pandemic on collections. However, CC utilisation has been nil in the live pool as of the June 2021 pay-out.

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 considering 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 contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.0-5.0% of the initial pool principal, with a certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-9.0% per annum.

Liquidity position

Strong for PTC Series A1

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. This imparts liquidity to the transaction in the interim period. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised pay-outs to the PTC Series A1 investors.

Adequate for PTC Series A2

As per the transaction structure, 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 adequate to meet the promised pay-outs to the 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 pay-outs from the CE could lead to a rating 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 rating downgrade.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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 as a Private Limited Company having its registered office in Hyderabad, initially operated as a business correspondent catering to microfinance borrowers. Later in May 2017, it received the license from Reserve Bank of India to operate as a non-banking financial company – microfinance institution (NBFC-MFI). The company provides microloans under the joint liability group (JLG) model along with credit-linked insurance. Vaya also operates as a business correspondent for RBL Bank and Yes Bank (now discontinued). Its loans qualify for priority sector lending for banks. As on May 31, 2021, the company reported assets under management (AUM) of Rs. 1,070 crore with a presence in 7 states and 98 districts, catering to around 5.72 lakh active borrowers through a network of 279 branches.

Key financial indicators

	FY2019 Audited	FY2020 Audited	FY2021 Audited
Total Income (Rs. crore)	138.4	193.3	201.3
Profit after Tax (Rs. crore)	18.9	6.8	9.5
AUM (Rs. crore)	1,109.7	1,234.4	1,139.3
Gross NPA (%)	0.1%	0.9%	2.8%
Net NPA (%)	0.1%	0.3%	1.1%

Source: Company, ICRA research; All ratios as per ICRA calculations; Amounts 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 (FY2022)				Chronology of Rating History for the past 3 years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					September 21, 2021	July 05, 2021	-	-	-
1	Northern Arc 2021 MFI Picot	PTC Series A1	22.94	22.94	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-	-
		PTC Series A2	0.93	0.93	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Northern Arc 2021 MFI Picot	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	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
Northern Arc 2021 MFI Picot	PTC Series A1	June 2021	10.03%	March 2023	22.94	[ICRA]A(SO)
	PTC Series A2	June 2021	14.50%	March 2023	0.93	[ICRA]BBB+(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

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.

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.

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