

Belstar Investment and Finance Private Limited

March 05, 2019

Summary of rated instruments

Trust Name	Instrument*	Current Rated Amount(Rs. crore)	Rating Action
Vivriti Salazar 022019	PTC Series A1	42.15	Provisional [ICRA]A+(SO) assigned
	PTC Series A2	0.48	Provisional [ICRA]A(SO) assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned Provisional [ICRA]A+(SO) rating to PTC Series A1 and Provisional [ICRA]A(SO) rating to PTC Series A2 under a securitisation transaction originated by Belstar Investment and Finance Private Limited (Belstar). The PTCs are backed by a pool of Rs. 56.91 crore micro loan receivables (underlying pool principal of Rs. 48.45 crore).

Rationale

The provisional ratings are based on the strength of cash flows from the selected pool of contracts; the credit enhancement available in the form of (i) Cash collateral of 5.50% of the pool principal to be provided by the Originator, (ii) subordination of 13.00% of the pool principal for PTC Series A1 and subordination of 12.00% of pool principal for PTC Series A2, and, (iii) subordination of entire Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure. The ratings are subject to fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- The first line of support is available for the transaction through subordination of 13.00% and 12.00% of pool principal for PTC Series A1 and A2 respectively
- Further credit support in the transaction is available through subordination of the excess interest spread (EIS) amounting to around 12.52% of the pool principal amount for PTC A1 and 12.34% of the pool principal amount for PTC A2; followed by the Credit Collateral (CC) equivalent to 5.50% of the initial pool principal amount.
- Moderately high seasoning of 30.26 weeks and pre-securitization amortization of the contracts in the pool by 30.31%

Credit challenges

- The pool has moderate geographical concentration; the top state (Tamil Nadu) accounts for 47.00% of the pool principal while the top five districts account for 26.32% of the pool principal.
- 31.38% of the borrowers in the pool have completed one or more loan cycles

Description of key rating drivers highlighted above:

The first line of support for Series A1 PTCs in the transaction is in the form of subordination of 13.00% of the pool principal (includes principal payable to PTC A2 and over collateralization). After PTC A1 has been fully paid, subordination of 12.00% of the pool principal will be available for PTC A2. An important feature of the structure in this transaction is that any collection in excess of the promised interest payouts to PTC A1 would be first utilised for payment of scheduled principal of PTC A1 and then for expected interest payouts to PTC A2. After PTC A1 is completely amortised the same would be utilised for payment of promised interest and scheduled principal to PTC A2.

Cash collateral of 5.50% of the initial pool principal provided by Belstar acts as further credit enhancement in the transaction. In the event of shortfall in meeting the promised PTC payouts during any month, the Trustee will utilize the cash collateral to meet the shortfall. Additionally, EIS available in the structure will also provide credit enhancement support.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that are moderately high seasoned with weighted average seasoning of 30.26 weeks, and low pre-securitisation amortisation of around 30.31%. Also, the door to door residual tenure of the contracts is moderate at 87 weeks. The contracts have an average ticket size of Rs. 33,201 which is in line with industry standards.

The geographical concentration of the loan contracts in the current pool is moderate with top state constituting about 47.0% of the pool principal and the top five districts constituting 26.32% of the pool principal.

Key Rating Assumptions

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

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 4.5% - 5.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 2%-5% per annum.

Liquidity Position

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. This structural feature imparts significant liquidity in the transaction, as even a small amount of collections in the underlying pool contracts would be sufficient to meet the scheduled PTC payouts.

Additionally, there is credit collateral available in the transaction amounting to 5.50% of the pool principal amount. The credit collateral is adequate to meet payment of seven months of interest payouts due to the senior PTC investors even in an unlikely scenario of no collections in the pool.

Analytical approach

The rating action is based on the analysis of the past performance of Belstar's portfolio till December 2018, key characteristics and composition of the current pool, 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

About the company:

Belstar Investment and Finance Private Limited (Belstar) was incorporated in January 1988. The company was registered as an NBFC with the RBI in March 2001 and later as an NBFC-MFI in December 2013. Belstar was acquired by Hand In Hand India (HIHI) Group in September 2008 to provide microfinance services to the members of the HIHI self-help group (SHG) programme. HIHI is an NGO, promoted by Dr. Kalpana Sankar in 2002 as a public charitable trust, based in Tamil Nadu.

During FY2008 to FY2013, Belstar primarily relied on HIHI for client acquisition, and later began to form its own groups (largely joint liability groups, JLG) and branches. During FY2017, Muthoot Finance Limited (MFL) made a strategic equity investment of Rs. 40 crore in the company and also acquired the entire foreign investor holding. As on March 31, 2018, MFL held a 66.6% stake in Belstar.

Belstar provides microfinance loans in semi-urban and rural districts under the SHG and JLG-based lending models. The company follows monthly collections for both models. As on December 31, 2018, Belstar was operating in twelve states and one union territory with 336 branches (predominantly in Tamil Nadu) and had a loan portfolio outstanding of Rs. 1,562.67 crore.

Belstar reported a net profit of Rs. 33.7 crore on a managed asset base of Rs. 1,402.9 crore during FY2018. During FY2017, Belstar reported a net profit of Rs. 10.4 crore on a managed asset base of Rs. 772.0 crore.

The company has a rating of [ICRA]A(Stable) for its Subordinated debt and Non-convertible Debenture programmes as on June 2018.

Key financial indicators (audited)

	FY 2017	FY 2018
Net Interest Income	47.8	116.3
Profit Before Tax	16.0	49.6
Profit After Tax	10.4	33.7
Gross Advances	575.9	1137.1
Total assets	762.9	1,342.0
% Tier I	13.2%	10.6%
% CRAR	17.0%	18.1%
Gearing	7.2	8.9
% Net Profit/Average managed assets	1.9%	3.1%
% Return on net worth	28.6%	30.8%
%Gross NPA	0.1%	0.8%
%Net NPA	0.0%	0.3%

Source: ICRA research and company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument		Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					March 2019	-	-	-
1	Vivriti Salazar 022019	PTC Series A1	42.15	42.15	Provisional [ICRA]A+(SO)	-	-	-
		PTC Series A2	0.48	0.48	Provisional [ICRA]A(SO)	-	-	-

Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Vivriti Salazar 022019	PTC Series A1	February 2019	9.35%	June 2020	42.15	Provisional [ICRA]A+(SO)
	PTC Series A2		14.00%		0.48	Provisional [ICRA]A(SO)

* Scheduled maturity and average life at transaction initiation; may change on account of prepayment and yield change

ANALYST CONTACTS

Vibhor Mittal

+91 22 6114 3440

vibhorm@icraindia.com

Abhijeet Ajinkya

+91 22 6114 3434

abhijeet.ajinkya@icraindia.com

Himanshi Doshi

+91 22 6114 3410

himanshi.doshi@icraindia.com

Ayush Agarwal

+91 22 6114 3417

ayush.agarwal@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents