

December 06, 2019

## Vivriti Capital Private Limited : Provisional ratings assigned to pass through certificates (PTCs) issued by CLO Hamise 01 2019 backed by a pool of term loan receivables

### Summary of rated instruments

Trust Name	Instrument*	Rated Amount (Rs. Crore)	Rating Action
CLO Hamise 01 2019	PTC Series A1	15.86	Provisional [ICRA]A (SO) assigned
	PTC Series A2	1.05	Provisional [ICRA]BBB+(SO) assigned

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has assigned Provisional [ICRA]A(SO) rating [pronounced provisional ICRA A (structured obligation)] to PTC Series A1 and to Provisional [ICRA]BBB+(SO) rating [pronounced provisional ICRA triple B plus (structured obligation)] to PTC Series A1 issued under a securitisation transaction originated by Vivriti Capital Private Limited (Vivriti).

Vivriti would assign to an SPV (Trust) namely CLO Hamise 01 2019, the future receivables arising from selected pool of eight term loan contracts provided to seven entities: Arman Financial Services Limited (Arman), Kanakadurga Finance Limited (Kanakadurga), Mahaveer Finance India Limited (Mahaveer), Namra Finance Limited (Namra), Oxyzo Financial Services Private Limited (OFSPL), Pahal Financial Services Private Limited (Pahal), Thirumeni Finance Private Limited (TFPL). The transfer would happen at par. The Trust will issue a two series of PTCs backed by the receivables. The upfront purchase consideration to be paid by PTC Series A1 to the Trustee will be 80.50% of the pool principal i.e. Rs. 15.86 crore while that payable by PTC Series A2 to the Trustee will be 5.34% of the pool principal i.e. Rs. 1.05 crore.

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of cash collateral (CC), Principal Subordination/ over-collateral and EIS;
- Diversity amongst the borrower entities in terms of the varied nature of businesses, ranging from Microfinance entities to NBFCs offering small business loans and vehicle finance.

#### Credit challenges

- Weak to moderate stand-alone credit quality of the Borrowers in long-term
- Moderate obligor concentration in the pool

### Description of key rating drivers highlighted above:

The first line of support for PTC Series A1 in the transaction is in the form of subordination of 19.50% of the pool principal (includes principal payable to PTC Series A2 and over-collateralization). After PTC Series A1 has been fully paid, subordination of 14.16% of the pool principal will be available for PTC Series A2 (in the form of over-collateralization).

The monthly cash flow schedule comprises of promised interest payment to PTC Series A1 and PTC Series A2 (after payment of PTC Series A1 in full) at the promised interest rate on the principal outstanding. The principal repayment to PTC Series A1 and PTC Series A2 is promised on the last payout date, with the principal repayment to PTC Series A2 being subordinated to principal repayment to PTC Series A1. Any principal repayment to PTC Series A2 will be made only after all PTC A1 Payouts have been fully made.

Further credit support in the transaction is available through First Loss Credit Enhancement (FLCE)/ Cash Collateral (CC). The FLCE/CC, equivalent to 3.00% of the initial pool principal amount (Rs. 0.59 crore). The cash collateral will be in the form of a fixed deposit maintained with a bank acceptable to ICRA. Additionally, EIS available in the structure will also provide credit enhancement support.

The obligor concentration for the loan contracts in the pool is high with top obligor constituting ~22% of the pool principal. However, obligors are diversified across industries such as microfinance lenders, vehicle finance and small business loans.

### **Key Rating Assumptions**

ICRA's cash flow modelling for rating securitisation transactions involves simulation of potential losses in the pool. ICRA's rating or rating view on the entities along with the balance tenure of the underlying loans given to obligor entities has been taken into account to estimate the default probability on each of the underlying loans. Additionally, a certain degree of correlation is assumed in the performance of the various obligor entities in the pool, by virtue of being in the same sector/ sub-sector. ICRA has also taken note of the originators' track record in lending to underlying entities and the past performance of their loan portfolio. Other variables that influence the amount of credit enhancement include the servicer's credit quality, the assumption on the build-up of delinquency/loss and the transaction structure.

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 loan contracts.

After making the aforementioned adjustments, the expected weighted average probability of default during the tenure of the transaction is estimated to be 6.50% - 8.50%, with certain variability around the same.

#### **Liquidity Position: Strong for PTC Series A1**

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. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC investors. The cash collateral is adequate to meet the promised interest payouts for a period of 3 months.

#### **Liquidity position: Adequate for PTC 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 credit enhancement are expected to be adequate to meet the promised payouts to PTC Series A2 investors.

### Analytical approach:

The rating action is based on the profile of the current pool, performance of the underlying borrower entities' portfolio till September 2019, performance expected over the balance pool tenure, and the credit enhancement available in the current transaction.

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

**Past Pool Performance:** This is the first CLO PTC transaction that ICRA has rated for a pool originated by Vivriti.

### Rating sensitivity

**Positive triggers** – The rating could be upgraded on the basis of amortisation of the loan facilities leading to build up of credit enhancement cover over the future payments (assuming no reset has been exercised in due course).

**Negative triggers** – Further deterioration in the credit quality of the underlying entities, could lead to pressure on the ratings.

### About the Originator:

#### Vivriti Capital Private Limited (Vivriti)

Vivriti Capital Private Limited was incorporated in June 2017. The company received its NBFC licence from the Reserve Bank of India (RBI) in January 2018. Vivriti provides diverse financing solutions, including loans and structured debt products, to entities providing microfinance, housing finance, vehicle finance and consumer finance among others. The company entered into an agreement with Creation Investments LLC, a US-based PE fund, for an equity infusion of Rs. 200 crore in August 2018. The first tranche of Rs. 100 crore was infused in January 2019 and the second tranche in February 2019. The company also raised Rs. 120 crore during March-May 2019.

In FY2019, Vivriti reported a net profit of Rs. 1.7 crore on a managed asset base of Rs. 613.4 crore compared to a net profit of Rs. 0.1 crore on a managed asset base of Rs. 15.5 crore in FY2018.

## Key financial indicators (audited)

Vivriti	FY2018	FY2019
Total Income	10.2	43.7
Profit after Tax	0.1	1.7
Net Worth	8.6	243.0
AUM	-	536.8
Total Managed Assets	15.5	613.4
RoMA	0.8%	0.5%
Return on Net Worth	1.5%	1.4% ^
Gearing	0.2	1.5
Gross NPA%	0.0%	0.0%
Net NPA%	0.0%	0.0%
CAR %	NA	NA

Amount in Rs. crore; ^ Low on account of significant capital infusion (Rs. 235 crore) in Q4 FY2019

## About the underlying Borrowers (rated by ICRA):

### Oxyzo Financial Services Private Limited (OFSPL)

OFSPL is a non-deposit accepting non-banking financial company (“NBFC”) which started its operations in November 2017 and presently provides unsecured and secured purchase finance loans to small and medium enterprises<sup>1</sup> (“SMEs”) for financing the purchase of raw materials that is used in their core business. The company is a part of the “OFB Group of Companies” comprising of OFB Tech and OFSPL, with OFB Tech being the holding company of OFSPL. The total portfolio of OFSPL stood at Rs. 519 crore as on June 30, 2019 (Rs. 640 crore as on August 31, 2019) as against Rs. 360 crore on March 31, 2019. On the consolidated basis the total AUM of the Group stands at around Rs. 801 crore as on August 31, 2019 as against Rs. 456 crore on March 31, 2019.

The company reported a PAT of Rs. 2.32 crore in Q1FY2020 on a total asset base of Rs. 542.37 crore as against a PAT of Rs. 4.75 crore on an asset base of Rs. 379.36 crore in FY2019. On consolidated levels the group reported a PAT of Rs. 14.59 crore on a Total Assets base of Rs. 602.98 crores in FY2019 against a PAT of Rs. -0.97<sup>2</sup> crore on a total asset base of Rs. 205.63 crore in FY2018. The net worth of the consolidated entity stood at Rs. 357 crore on August 31, 2019 (Rs. 600 crore post equity infusion in September 2019). On standalone basis the net worth of OFSPL stood at Rs. 152 crore and a gearing of 2.42x as on June 30, 2019.

<sup>1</sup> SMEs are categorized as entities with revenue of Rs. 2-100 crore.

<sup>2</sup> This includes the one-time expense of raising the equity, adjusting for the same the PAT of the company stands at around Rs. 5.4 crore.

### Key financial indicators - OFSPL (Standalone)

Amounts in Rs. Crore	FY 2018	FY2019	Q1FY2020
PAT	0.2	4.8	2.3
Net Worth	25.0	105.1	152.4
Assets under management	82.0	358.0	519.0
Total Assets	86.2	379.4	541.8
Total Managed Assets	86.2	379.4	541.8
Return on Average Assets	0.6% <sup>3</sup>	2.0%	2.0%
Return on Average Equity	3.0% <sup>4</sup>	7.3%	7.2%
Gearing (times)	2.3	2.5	2.4
CRAR	30.2%	29.5%	28.3%
Gross NPA %**	0.0%	1.0%	1.1%
Net NPAs%**	0.0%	0.66%	0.48%

Source: Oxyzo Financial Services Private Limited; ICRA Research

### Pahal Financial Services Private Limited (Pahal)

Pahal is an Ahmedabad-based NBFC-MFI registered with the Reserve Bank of India. The company commenced operations in March 2011 by acquiring the existing operations of Lok Vikas Nidhi, a trust operational in Gujarat for over 25 years. Pahal's current promoters acquired a portfolio of Rs. 2.6 crore, spread over 15 branches, along with the field staff of Lok Vikas, and subsequently transferred the acquired portfolio to an NBFC, along with an equity contribution of Rs. 2 crore. The NBFC was renamed Pahal Financial Services Pvt. Ltd. As on September 30, 2019, the operations were spread across 65 districts in five states – Gujarat (50%), Rajasthan (23%), Madhya Pradesh (17%), Bihar (7%) and Maharashtra (3%).

Pahal reported a profit of Rs. 7.51 crore in FY2019 on assets under management (AUM) of Rs. 496 crore as on March 31, 2019 against a loss of Rs. 6.57 crore in FY2018 on AUM of Rs. 223 crore as on March 31, 2018.

### Key financial indicators (audited)

	FY2017	FY2018	FY2019
Total income (Rs. crore)	36.98	39.59	88.60
PAT (Rs. crore)	1.88	(6.57)	7.51
Net worth (Rs. crore)	28.66	35.27	55.88
Total managed portfolio (Rs. crore)	128.48	223.02	495.72
Return on managed assets (%)	1.11%	(2.93)%	1.64%
Return on equity (%)	8.45%	(19.19)%	13.89%
NIM/AMA	8.54%	6.60%	8.79%
Operating expenses/AMA	6.8%	6.91%	6.19%
Gearing (managed book; times)	6.20	6.40	7.86

PAT: Profit after tax; NIM: Net interest margin; AMA: Average managed assets

Source: ICRA research; All ratios as per ICRA's calculations

<sup>3</sup>Adjusted for the beginning of the operations in November 2017, Yearend reported figure is 0.2%

<sup>4</sup>Adjusted for the infusion of equity from November 2017 to March 2018. Yearend reported number would be 0.7%

### Thirumeni Finance Private Limited (TFPL)

Thirumeni Finance Private Limited (TFPL) is a non-deposit taking non-banking finance company, incorporated in Cochin, Kerala in June 1984. TFPL was acquired by the current promoters – Mr. Steve Hardgrave and Mr. Brajesh Mishra – in May 2012 and commenced financing operations in January 2013. As on May 31, 2018, the promoters held an 11.9% stake in the company with the balance being held by institutional investors (81.5%), individual investors (2.7%) and an employee share ownership trust (3.9%). TFPL offers credit facilities to private schools, including affordable private schools, for improvement, capacity expansion and growth. The company uses the Varthana brand to establish its identity with the target customer segment. The company currently operates in 14 states including Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Odisha, Rajasthan and Chhattisgarh, with its head office in Bangalore. As on Sep 30, 2019, TFPL had a portfolio of Rs. 1,171 crore.

During FY2019, TFPL reported a profit after tax (PAT) of Rs 39.6 crore on a total managed asset base of Rs. 1,099 crore as against a PAT of Rs. 15.2 crore on a total managed asset base of Rs. 1,006 crore during FY2018. ICRA has a rating outstanding of [ICRA]BBB+(Stable) on the NCD programme and the long-term bank lines of TFPL.

### Key Financial Indicators (Audited)

	FY 2017	FY 2018	FY2019
Total Income (Rs. Crore)	62.6	117.5	191.1
Profit after Tax (Rs. Crore)	8.3	15.2	39.6
Net Worth (Rs. Crore)	137.7	348.3	388.0
Total Managed Portfolio (Rs. Crore)	402.1	781.0	1,099.1
Total Managed Assets (Rs. Crore)	464.6	1,006.3	1,099.1
Return on Managed Assets (%)	2.2%	2.1%	3.6%
Return on Net Worth (%)	6.3%	6.2%	10.8%
Gearing (times)	2.1	1.8	2.0
Gross NPA (%)	1.5%	1.2%	1.9%
Net NPA (%)	0.5%	0.3%	0.6%
Capital Adequacy Ratio (%)	36.3%	44.6%	35.8%

Source: TFPL and ICRA research; Amount in Rs. crore

### Kanakadurga Finance Limited (Kanakadurga/KFL)

Kanakadurga Finance Limited (KFL) was incorporated as a private company in 1994 to take over the auto financing business of the proprietary entities of the promoter. The company was converted into a public company in 1996. Mr. S. Lakshmi Narayana, the promoter has been in the auto finance business for the past ~30 years. In FY2016, the name of the company was changed to KFL from the earlier name of Kanakadurga Leasing & Finance Limited. KFL is registered as an asset financing company and non-deposit taking NBFC with RBI and is primarily engaged in the business of vehicle financing and gold loans. The company has presence in the States of Andhra Pradesh (A.P), Telangana, Karnataka, Tamil Nadu, Pondicherry and Gujarat. It has total of 127 branches across these States.

## Key Financial Indicators

Key Ratios (Managed Portfolio)	31-Mar-17 (Audited)	31-Mar-18 (Audited)	31-Mar-19 (Provisional)
Net Interest Margin (adj. for BO costs )/AMA	10.8%	11.0%	11.2%
Operating expenses / AMA	7.1%	8.0%	9.5%
Operating Profit / AMA	4.1%	3.6%	2.5%
Credit Prov. & Write-offs / AMA	1.1%	0.7%	0.9%
Operating Profits (net of credit provisions) / AMA	3.0%	2.8%	1.7%
PBT/ AMA	3.1%	2.8%	1.7%
PAT/ AMA	2.0%	2.0%	1.7%*
Tier I (%)	33.71%	24.38%	19.59%
Tier II (%)	0.24%	0.12%	2.14%
Total CAR (%)	33.95%	24.50%	21.73%
Gearing (times)	3.7	5.6	4.6

Source: Company Data; ICRA research

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					06-Dec-2019	-	-	-
1	CLO Hamise 01 2019	PTC Series A1	15.86	15.86	Provisional [ICRA]A(SO)	-	-	-
		PTC Series A2	1.05	1.05	Provisional [ICRA]BBB+(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](http://www.icra.in)

### Annexure-1: Instrument Details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate <sup>#</sup>	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
CLO Hamise 01 2019	PTC Series A1	November 2019	11.60%	April 2023	15.86	Provisional [ICRA]A(SO)
	PTC Series A2		15.00%		1.05	Provisional [ICRA]BBB+(SO)

<sup>#</sup> calculated on XIRR basis

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

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