

October 21, 2020

Vivriti Capital Private Limited: Ratings downgraded to [ICRA]B(SO) for PTCs issued under a multi originator micro loan securitisation transaction arranged by Vivriti Capital Private Limited; ratings placed on watch with negative implications

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Principal O/s after Sep-20 Payout (Rs. Cr.)	Rating Action
Vivriti CABSEC 009 2019	PTC Series A1	52.63	22.80	Downgraded to [ICRA]B(SO) from [ICRA]A-(SO); placed on rating watch with negative implications
	PTC Series A2	3.90	3.90	Downgraded to [ICRA]B(SO) from [ICRA]BBB-(SO); placed on rating watch with negative implications

*Instrument details are provided in Annexure-1

Rationale

The downgrade of ratings takes into account the uncertainty regarding funding of the Collection & Payout Account (C&P Account) for the October 2020 payout as well as extent of collections going forward by Sambandh Finserve Private Limited (Sambandh), being one of the originators in the trust Vivriti CABSEC 009 2019, following reports of internal fraudulent business practices and default on its repayment obligation on various debt instruments in October 2020. The available first loss credit enhancement (FLCE) which is in form of a fixed deposit lien marked in favour of the Trustee is adequate to support any shortfall on account of non-funding of C&P Account by Sambandh to meet the immediate promised investor payouts (i.e. interest) as the transaction structure is TIUP (timely interest ultimate principal). However, in the event that there is no future funding of the C&P account by Sambandh, the PTC investors would face an eventual shortfall on principal collections as the FLCE provided by each Originator can be used to make good the shortfalls or losses faced on account of the pool of that Originator only.

Pool performance summary

A summary of the performance of the pool till the August 2020 collection month (September 2020 payout month) has been tabulated below.

Parameter	Vivriti CABSEC 009 2019
Months post securitisation	9
Pool Amortisation	53.4%
PTC A1 amortisation	56.7%
PTC A2 amortisation	0.0%
Total PTC Amortisation (PTC A1 & PTC A2)	52.8%
Cumulative Collection Efficiency ¹	78.2%
Cumulative FLCE Utilisation	0.0%
FLCE (% of Balance Pool)	10.7%

¹ (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

Parameter	Vivriti CABSEC 009 2019
Principal Subordination (% of Balance Pool) for PTC A1	24.8%
Principal Subordination (% of Balance Pool) for PTC A2	11.9%
Excess interest spread (EIS) (% of Balance Pool) for PTC A1 ²	10.4%
EIS (% of Balance Pool) for PTC A2 ³	8.4%

Key rating drivers

Credit strengths

- Not Applicable

Credit challenges

- Uncertainty on the timely funding of the C&P account by one of the originators, viz. Sambandh Finserve, as well as future collections following reports of fraudulent practices
- Performance of pool would remain exposed to the impact of Covid-19 pandemic on the income generating capability of the borrower, given the marginal borrower profile; further, pool performance would be exposed to natural calamities, 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 over-collateralisation of 19.00% of the pool principal (includes principal payable to PTC Series A2 and over-collateralisation) followed by the entire EIS in the structure. After PTC Series A1 has been fully paid, a subordination of 13.00% of the pool principal will be available for PTC Series A2 (in the form of over-collateralisation). As per the waterfall mechanism applicable to the transaction, the EIS will flow back to the Originator after the promised and scheduled payouts to the PTC investors have been made every month. The FLCE acts as further credit enhancement in the transaction. The FLCE, aggregating 5.00% of the initial pool principal (Rs. 3.25 crore), is provided by the Originators. The FLCE provided by each Originator can be used to make good the losses incurred on account of the pool of that Originator only and not for meeting the losses incurred on account of any other Originator. It will be in the form of a fixed deposit maintained with a bank acceptable to ICRA. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the FLCE to meet the shortfall. In the event of excess collections in a month, after meeting the promised payout as defined in the waterfall mechanism, such excess would be used to top up the FLCE.

The pool performance remained strong till September 2019 (payout month) evidenced by the healthy collection efficiency. However, following reports of fraudulent practices at Sambandh and subsequent defaults reported on its on-balance sheet debt, there is heightened risk of weak collections and even non-funding of the C&P account in a timely manner. The available credit enhancement in the transaction would not be adequate to meet the investor payouts for PTC Series A1 and PTC Series A2 in the event that no collections are received from Sambandh hereon. The performance of the pool would also remain exposed to impact of Covid-19 pandemic on the income generating capability of the borrower, given the marginal borrower profile, other than natural calamities, political and communal risks.

² $(Pool\ Cash\ flows - Cash\ flows\ to\ PTC\ A1 - PTC\ A2\ principal - originator's\ residual\ share) / Pool\ Principal\ outstanding$

³ $(Pool\ Cash\ flows - Cash\ flows\ to\ PTC\ A1 - Cash\ flows\ to\ PTC\ A2 - originator's\ residual\ share) / Pool\ Principal\ outstanding$

Key rating assumptions

ICRA's cash flow modelling for the rating of asset-back security (ABS) transactions involves the simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for the mean shortfall and coefficient of variation (CoV) are arrived at on the basis of the values observed in the analysis of the Originator's loan portfolio. Additionally, the assumptions may be adjusted to account for the prevalent macroeconomic situation as well as any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts. For arriving at the current rating action, ICRA has factored in the uncertainty arising on future payouts owing to the issues prevalent with Sambandh.

Liquidity position: Poor

Given the uncertainty on the ability of the Sambandh to fund the C&P account as well as continue to act as a servicer for the sub-pool in the transaction, the liquidity is considered to be poor.

Rating sensitivities

Positive triggers – The ratings could be upgraded if the originators in the transaction, including Sambandh or any alternate servicer, continue to report healthy collections for a sustained period and fund the C&P account in a timely manner.

Negative triggers – The ratings would be downgraded further if there is a shortfall in meeting the promised PTC payouts or such a shortfall is imminent in ICRA's opinion.

Analytical approach

The rating actions are based on the performance of the pool till August 2020 (collection month), the present delinquency levels and the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

Digamber Capfin Limited

Digamber started operations as a non-banking financial company (NBFC) in 1995. It is a regulated NBFC-microfinance institution (NBFC-MFI), registered in 1995, providing financial and support services to the marginalised sections of society, particularly to poor rural and urban women. The main products were vehicle financing, farmer's credit, and small business loans. After 2009, Digamber changed to an NBFC-MFI from an asset finance company. MFI loans follow the Grameen model of lending, which is a joint liability group (JLG) lending model that mainly focuses on women through a credit product that allows them to start a new business or enhance an existing business. The broad categories of products can be further sub-divided into agricultural, education, home improvement, and livestock loans. Trader finance is secured and unsecured higher ticket size loan products, which are available for both existing and open market customers. The company has been making 100% digital disbursements since 2014.

At present, Digamber's is operating from 80 districts out of 149 branches. As of June 2020, around 60% of loan portfolio is in agri-allied activity while the remaining 40% is in trading, manufacturing and services segment. The company's MFI loan portfolio stood at Rs. 691 crore as on June 30, 2020.

M Power Micro Finance Private Limited

M Power was incorporated in November 2009 by Mr. K. M. Vishwanathan and Mr. K. V. Balaji. It commenced operations in Gujarat and expanded its operations, over the last four years, to the neighbouring states of Maharashtra and Rajasthan. M Power was registered as an NBFC-MFI with the Reserve Bank of India (RBI) on June 22, 2016. It is in the business of inclusive financing of microlending to women borrowers in semi-urban and rural areas under the JLG model through 55 branches across three states (i.e. Gujarat, Maharashtra and Rajasthan). At present around 56 branches are operational with 33% of workforce at each branch location. As on June 30, 2020, the company had an outstanding MFI loan portfolio of Rs. 260 crore.

Sambandh Finserve Private Limited

Sambandh Finserve Private Limited (SFPL; erstwhile Modline Build-cap Private Limited) was incorporated in July 1996. The microfinance activities were started by the promoters of Sambandh in 2006 as a project under Regional Rural Development Centre (RRDC), one of the reputed NGOs in Odisha. It converted to an NBFC in 2009 and secured an NBFC-MFI licence from the RBI in 2013. Its corporate and registered offices are in Rajgangpur, Odisha. SFPL primarily offers microfinance loans under both joint liability and self-help group models, for income generation.

Inditrade Microfinance Limited

Inditrade Microfinance Limited (Inditrade) was incorporated on January 29, 2016 under the name Tree Microfinance Limited. The company's name was subsequently changed to Inditrade Microfinance Limited on May 18, 2016 after becoming a subsidiary of Inditrade Capital Limited. Inditrade is registered as a non-deposit taking NBFC-MFI with the RBI and is engaged in microlending activities.

While the company continues to have a presence in five states, namely Maharashtra, Tamil Nadu, Kerala, Karnataka and Odisha, its geographical mix has been improving both at the district as well as the state level due to deeper penetration in the existing states and increased portfolio diversification across states. The company is operating out of 171 branches as on June 30, 2020. Inditrade had an outstanding loan portfolio of Rs. 275 crore as on June 30, 2020.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Rated Amount	Amount Outstanding	Rating 21-Oct-20	Rating 02-Jun-20*	FY2020 06-Jan-20^	FY2019	FY2018
1	Vivriti CABSEC 009 2019	PTC Series A1	52.63	22.80	[ICRA]B(SO)@	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-
		PTC Series A2	3.90	3.90	[ICRA]B(SO)@	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)		

Amount in Rs. Crore;

^Initial rating assigned

* rating confirmed as final

@ under rating watch with negative implications

Complexity level of the rated instrument

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 (p.a.)	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Vivriti CABSEC 009 2019	PTC Series A1	December 2019	10.50%	October 2021	22.80	[ICRA]B(SO)@
	PTC Series A2	December 2019	15.00%	October 2021	3.90	[ICRA]B(SO)@

* Scheduled maturity at transaction initiation; May change on account of prepayments in the underlying pool
@ under rating watch with negative implications

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About ICRA Limited:

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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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