January 20, 2023

Blue Jay Finlease Private Limited: Rating confirmed as final for PTCs backed by unsecured small business loan receivables issued by LOTUS 09 2022

Summary of rating action

Trust Name	Instrument Name *	Rated Amount (Rs. crore)	Rating Action
LOTUS 09 2022	Series A1 PTC	3.12	[ICRA]BBB-(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In September 2022, ICRA had assigned a Provisional [ICRA]BBB-(SO) rating to Series A1 PTC issued by LOTUS 09 2022. The pass-through certificates (PTCs) are backed by a pool of Rs. 4.39-crore unsecured small business loan (SBL) receivables (underlying pool principal of Rs. 3.47 crore) originated by Blue Jay Finlease Private Limited (Blue Jay/originator). 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 rating has now been confirmed as final.

A summary of the pool's performance after the December 2022 payout is shown in the table below.

Parameters	LOTUS 09 2022
Months post securitisation	3
Actual pool amortisation	17.06%
Series A1 PTC amortisation	18.96%
Average monthly prepayment rate	0.00%
Cumulative collection efficiency	96.53%
Loss-cum-0+ dpd	8.06%
Loss-cum-30+ dpd	2.38%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of excess interest spread (EIS), subordination and cash collateral (CC)
- All the contracts in the pool have nil overdues as on the cut-off date and have not been delinquent for more than a month in the loan cycle
- Initial pool has weighted average seasoning of 10.76 months

Credit challenges

- High geographical concentration with top 3 states having a share of ~89% in the initial pool principal
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

The underlying loans follow a monthly payment schedule. As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to Series A1 PTC at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date. The principal is expected to be paid on a monthly basis but is not promised.

The EIS available after meeting the promised and expected PTC payments shall flow back to the originator on every payout date.

The first line of support for Series A1 PTC in the transaction is in the form of over-collateralisation of 10.00% of the pool principal. Additionally, the EIS available in the structure provides CE support. A CC of 6.50% of the initial pool principal provided by Blue Jay acts as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC to meet the shortfall.

There were no overdues in the pool as on the cut-off date. The pool consists of loans with a weighted average seasoning of 10.76 months and average and pre-securitisation amortisation of 27.89%. The pool has high geographical concentration with the top 3 states (Delhi, Maharashtra and Rajasthan) accounting for 89% of the pool principal. The rating also factors in the rise in delinquencies in Blue Jay's portfolio, post the onset of the Covid-19 pandemic. Also, the pool's performance will remain exposed to any fresh disruptions that may arise due to the pandemic.

Past rated pools: ICRA has previously rated three PTC transactions backed by receivables originated by Blue Jay. All three pools have shown stable cumulative collection efficiency (above 93%) with no CC utilisation post the November 2022 payout month.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) 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 mean and the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of Blue Jay's loan portfolio. Given the short track record of Blue Jay in the unsecured SBL segment, ICRA has also taken into account the credit quality experience of other more established players and ICRA's expectation of the credit quality of its portfolio. Blue Jay's target borrower segment could be financially vulnerable as well as subject to various seasonality factors. Though the company resorts to legal recourse for some delinquent loans, this may not always be a feasible option particularly given the small ticket size and the unsecured nature of the loans issued.

The resulting collections from the pool – after incorporating the impact of losses and prepayments as above – are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks for the target rating.

For the current pool, after taking into account the above-mentioned factors regarding the asset class and after adjusting for key features like seasoning, overdues, ticket size, interest rate, bureau score, and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 6.5-7.5%, with certain variability around it. The prepayment rate in the pool is estimated at 4.8-18.0% p.a.

Liquidity position: Adequate

As per the transaction structure, only the interest amount is promised to the PTCs on a monthly basis while the entire 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 payouts to the Series A1 PTC investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the CE.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

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

Blue Jay Finlease Private Limited (under tradename of ZipLoan) is a Delhi-based non-banking financial company (NBFC), which started its operations in 2016 to provide unsecured working capital finance to the underserved microenterprise segment. The company has operations in five locations, including Delhi, Indore, Lucknow, Jaipur and Mumbai, and a portfolio size of ~Rs. 102 crore as of September 2022.

Key financial indicators

For the period ended	FY2021	FY2022
Total income	38.16	22.35
Profit after tax (PAT)	-22.46	-23.19
Assets under management	150.91	149.00
GNPA	8.01%	12.25%
NPA	4.12%	7.49%

Source: Company data; Amount 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 (FY2023)					Chronology of Rating History for the Past 3 Years		
	Instrument Name	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Jan 20, 2023	Oct 12, 2022	-	-	-
LOTUS 09 2022	Series A1 PTC	3.12	3.12	**[ICRA]BBB-(SO)**	**Provisional [ICRA]BBB-(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	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

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
LOTUS 09 2022	Series A1 PTC	October 2022	13.30%	March 2025	3.12	[ICRA]BBB-(SO)

** Scheduled maturity date at transaction initiation; may change on account of prepayments*

Source: Company

Annexure II: 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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