

October 25, 2021

## Vivriti Capital Private Limited: Ratings downgraded to [ICRA]D(SO) for PTCs issued under multi-originator microloan securitisation transaction arranged by Vivriti

### Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Vivriti CABSEC 009 2019	PTC Series A1	52.63	6.55	0.66	[ICRA]D(SO); Downgraded from [ICRA]B-(SO)
	PTC Series A2	3.90	3.90	3.90	[ICRA]D(SO); Downgraded from [ICRA]C(SO)

\*Instrument details are provided in Annexure-1

### Rationale

The ratings downgrade takes into account the considerably lower-than-expected collections from the sub-pool of Sambandh Finserve Private Limited (Sambandh), one of the originators of the multi-originator securitisation transaction. This led to a shortfall in meeting the promised payouts to the pass-through certificate (PTC) investors on the scheduled maturity date even after utilising the entire cash collateral available from Sambandh for the transaction.

The PTCs, tabulated above and issued by Vivriti CABSEC 009 2019 Trust, are backed by the microfinance loan receivables originated by four originators, namely Digamber Capfin Limited (Digamber), M Power Micro Finance Private Limited (M Power), Sambandh and Inditrade Microfinance Limited (Inditrade)), and arranged by Vivriti Capital Private Limited.

As of the May 2021 payout month, the PTC liabilities of two entities, i.e. M Power and Inditrade, were met completely and as per the structure, their first loss credit enhancement (FLCE/cash collateral) was not available to the PTCs for any future shortfall. Further, the PTC liability of the third entity, i.e. Digamber, was completely paid out on the final maturity date (October 22, 2021) as the collections remained robust. As a result, its FLCE was not available to meet any shortfall related to the PTCs. Only the PTC liability corresponding to the sub-pool of Sambandh is outstanding in the transaction as of the October 2021 payout.

Following reports of internal fraudulent business practices and default on its repayment obligation on various debt instruments in October 2020, the lenders of Sambandh appointed New Opportunity Consultancy Private Limited (NOCPL) as the agency for collecting against the outstanding loan portfolio (including securitisation transactions). The agency has been carrying out the collection activities on behalf of Sambandh since December 2020. However, collections have remained subdued, showing a declining trend on a month-on-month basis (collections of only Rs. 5.2 lakh in October 2021 payout compared to ~Rs. 59 lakh in December 2020 payout). ICRA had revised the ratings downward for both PTC tranches in October 2020 and then in June 2021 following the sharp weakening of the credit profile of Sambandh that led to heightened risks in the transaction.

## Pool performance summary

A summary of the performance of the pool till the October 2021 payout month has been tabulated below.

Parameter	Vivriti CABSEC 009 2019
Pool amortisation (%)	91.4%
PTC A1 amortisation (%)	98.7%
PTC A2 amortisation (%)	NIL
Cumulative collection efficiency (%) <sup>1</sup>	72.1%
Monthly collection efficiency for Digamber	63.1%
Monthly collection efficiency for Sambandh	16.5%
Cumulative FLCE utilisation for Digamber (%)	0.0%
Cumulative FLCE utilisation for Sambandh (%)	100.0%

## Key rating drivers

### Credit strengths

- Not applicable

### Credit challenges

- Sustained weak collection performance in the pool
- Pool's collections along with available credit enhancement were insufficient to meet the promised payouts to the PTC investors on the final maturity date

## Description of key rating drivers highlighted above

The pool's performance remained healthy till May 2021 (payout month) for Digamber, M Power and Inditrade. Resultantly, M Power and Inditrade paid their respective dues and exited the transaction. Further, basis the healthy collection trend, Digamber met the PTC investor payouts completely by the final maturity date (i.e. October 22, 2021). Following reports of internal fraudulent business practices and default on its repayment obligation on various debt instruments in October 2020, the lenders of Sambandh appointed NOCPL as the collection agency. However, monthly collections continued to show a steep declining trend since then. The collection from overdue contracts has also been poor.

As per the transaction structure, the FLCE (kept in the form of a fixed deposit; FD) provided by each originator could 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. Due to the sustained lower-than-expected pool performance of the Sambandh sub-pool, there has been a shortfall in meeting the scheduled payouts to the PTC investors even after the utilisation of Sambandh's credit enhancement available in the transaction.

## Key rating assumptions

Not applicable

## Liquidity position: Poor

On the scheduled maturity dates, the cash collateral in the sub-pool of Sambandh has been fully utilised. Further repayments would be met through collections from the overdue loan contracts. Considering the collection trend in recent months, the full repayment of the PTCs is unlikely in the near to medium term. Hence, the liquidity is considered to be poor for both tranches.

<sup>1</sup> Cumulative collections till date / cumulative billings till date plus opening overdues

## Rating sensitivities

**Positive / Negative factors** – Not applicable

## Analytical approach

The rating action is based on the performance of the pool till September 2021 (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	<a href="#">Rating Methodology for Securitisation Transactions</a> <a href="#">Policy on Default Recognition</a>
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 company's 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.

The 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. The company has been making 100% digital disbursements since 2014.

At present, Digamber is operating out of 8 states spread over 80 districts in 150 branches. As of September 2020, borrowers associated with agri-allied activities accounted for around 60% of the loan portfolio while the borrowers in the remaining 40% of the loan portfolio were associated with the trading, manufacturing and services segments. The company's MFI loan portfolio stood at Rs. 544 crore as on March 31, 2021.

### Key financial indicators

For the period ended	FY2020 (Audited)	FY2021 (Unaudited)
Income (Rs. crore)	140.60	159.30
Profit after Tax (Rs. crore)	26.86	29.39
Total Assets under Management (Rs. crore)	726.83	746.78
Gearing (adjusted; times)	6.02	5.11
Gross NPA (%)	0.16%	1.27%

Source: Company, ICRA Research

Note: All ratios as per ICRA calculations; Gearing (adjusted) = (on-book debt incl. securitisation)/(net worth-FLDG)

### Sambandh Finserve Private Limited

Sambandh Finserve Private Limited (erstwhile Modline Build-cap Private Limited) was incorporated in July 1996. The microfinance activities were started by the company's promoters in 2006 as a project under Regional Rural Development Centre (RRDC). It converted into an NBFC in 2009 and secured an NBFC-MFI licence from the Reserve Bank of India (RBI) in 2013. Its corporate and registered offices are in Rajgangpur, Odisha.

Sambandh primarily offers microfinance loans under the joint liability as well as self-help group models for income generation. As per available information, at the end of March 2020, Sambandh had total reported assets under management (AUM) of Rs.

461 crore and it reported a profit after tax (PAT) of Rs. 5.22 crore. It had gross non-performing advances (NPAs) of 0.67% and a total capital adequacy ratio (CAR) of 21.5%.

However, the board received complaints from the senior management personnel about the AUM being deliberately inflated, fake clients and siphoning and diversion of the company's funds. The board appointed Ernst & Young (E&Y) to undertake a forensic audit of the company. Moreover, with the approval of the lenders, it appointed Mr. Anand Charan Sahu, a retired general manager of Small Industries Development Bank of India (SIDBI), as the administrator from November 6, 2020. Sambandh executed a collection agreement with NOCPL on November 13, 2020.

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

Any other information: None

### Rating history for past three years

Trust Name	Instrument	Current Rating (FY2022)		Chronology of Rating History for the Past 3 Years						
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and Rating in FY2022		Date and Rating in FY2021		Date and Rating in FY2020	Date and Rating in FY2019	
				Oct-25-2021	Jun-04-2021	Oct-21-2020	Jun-02-2020			
1 Vivriti CABSEC 009 2019	PTC Series A1	52.63	0.66	[ICRA]D(SO)	[ICRA]B-(SO)	[ICRA]B(SO)@	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	
	PTC Series A2	3.90	3.90	[ICRA]D(SO)	[ICRA]C(SO)	[ICRA]B(SO)@	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)	-	

@ Under Watch with Negative Implications

### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Vivriti CABSEC 009 2019	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](http://www.icra.in)

### Annexure-1: Instrument details

Trust Name	Instrument Type	Date of Issuance	Coupon Rate	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Vivriti CABSEC 009 2019	PTC Series A1	December 2019	10.50%	October 2021	0.66	[ICRA]D(SO)
	PTC Series A2		15.00%		3.90	[ICRA]D(SO)

Source: Company

### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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