Vaya Finserv Private Limited

January 10, 2019

Summary of rating action

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	68.00	68.00	[ICRA]BBB(Stable); revised from [ICRA]BBB-(Stable)
Long-term bank lines	130.00	168.41	[ICRA]BBB(Stable); revised from [ICRA]BBB-(Stable)
Long-term bank lines: unallocated	370.00	331.59	[ICRA]BBB(Stable); revised from [ICRA]BBB-(Stable)
Total	**568.00**	**568.00**	

**Instrument details in Annexure-1*

Rationale

The rating upgrade considers Vaya Finserv Private Limited's (VFPL) good progress in scaling up its operations (portfolio of Rs. 1,004 crore including on-book portfolio of nearly Rs. 373 crore as on November 30, 2018) while maintaining good asset quality indicators, improved geographical diversification as well as profitability indicators. The rating continues to factor in VFPL's experienced promoters and senior management team, its good loan origination, collection and monitoring systems, supported by an adequate management information system (MIS) and a robust information technology (IT) system, enabling the oversight of disbursements and collections, and a sound internal audit process.

VFPL's capitalisation profile has improved following a capital infusion of Rs. 100 crore (through compulsorily convertible preference shares; CCPS) in H1 FY2019 by the promoters. While the current funding profile shows dependency on non-banking finance companies (NBFCs), VFPL has adequate liquidity to service its debt obligations. However, the company's ability to diversify its funding profile and secure funds in a timely manner will remain important for supporting business growth. The rating is constrained by VFPL's moderate scale of operations, moderate liability profile, marginal borrower profile, its focus on unsecured lending and the political and operational risks associated with microlending which may lead to high volatility in the asset quality indicators. The company's ability to onboard borrowers with good credit history, recruit and retain employees and maintain geographical diversity would be critical for sustainable growth. Going forward, VFPL's ability to maintain the asset quality, diversify the funding profile, improve the profitability indicators and maintain prudent capitalisation levels would be a key rating sensitivity.

Outlook: Stable

ICRA believes that VFPL will continue to benefit from the experience of its management, good systems and processes. The outlook may be revised to Positive on the company's ability to diversify its portfolio, while maintaining its asset quality indicators, and to have access to lower-cost funds to support growth while diversifying the funding source. The outlook may be revised to Negative if the asset quality or capitalisation deteriorates, thereby weakening the company's financial risk profile.

Key rating drivers

Credit strengths

Experience of promoters and management team in microfinance sector - Incorporated in 2014, VFPL is promoted by Vaya Trusts and Mr. Vikram Akula. The company's board as well as the senior management consist of experienced professionals with extensive experience in the field of microfinance.

Adequate capitalisation indicators to absorb credit losses - VFPL reported an adequate capitalisation profile as on September 30, 2018 with a net worth of Rs. 160.97 crore supported by an infusion of Rs. 100 crore by the promoters through compulsorily convertible preference shares (CCPS) in H1 FY2019. While the current capitalisation levels are adequate, the regular flow of funds will be crucial for expanding operations.

Stable asset quality indicators - The company reported stable asset quality indicators with 90+ overdues of 0.04% on the on-book portfolio and 2.39% on the managed portfolio as on September 30, 2018. A large proportion of the overdue loans were a result of low collections in Maharashtra and Karnataka, which were impacted during demonetisation. VFPL has made provisions for all such loans. Going forward, the company's ability to maintain the asset quality while scaling up operations in new and existing states will remain monitorable.

Adequate systems to support scale up of operations - VFPL has an efficient IT infrastructure with real-time tracking of field-level data pertaining to borrowers, districts and branches. The company has adequate internal data warehouses to allow the proper maintenance of client data in a physical form as well as through tablets. Moreover, it has good data management and data security systems that are commensurate with its current scale of operations and has adequate capacity to allow the further scale up of operations. The real-time credit bureau check enables the company to reduce the turnaround time. VFPL also has an efficient MIS system with access to human resources, learning management system, data warehouse, enterprise management and other related functions.

Credit challenges

Moderate scale of operations - The company reported a moderate scale of operations with a managed portfolio of nearly Rs. 1,004 crore (including an on-book portfolio of nearly Rs. 373 crore) as on November 30, 2018. While the current scale of operations is reasonably well diversified across 78 districts in seven states, the regional composition will remain a monitorable as the operations expand geographically. The top 10 districts accounted for nearly 29% of the managed portfolio as on September 30, 2018 that was fairly diversified for the current scale of operations. The company plans to diversify the portfolio in other states to bring down the concentration in the top 3 states (78% of the managed portfolio as on September 30, 2018), which would be visible over the medium term.

Limited diversity in funding profile – As on November 30, 2018, VFPL has partnered with eight NBFCs, one bank, two financial institutions (FIs) and receives debt support from the promoters to support on-book portfolio growth. It has partnered with three banks/FIs for the business correspondent (BC) portfolio. While the company has adequate liquidity to service its debt obligations, its ability to diversify its funding profile and secure funds at competitive rates will remain important for supporting business growth.

Moderate profitability indicators - The yields improved on the back of realisations on the growing on-book portfolio, on which the company charged 23.75% in Q1 FY2019 and 22.00% in Q2 FY2019. This, coupled with the steady cost of borrowings, led to an improvement in the net interest margin, in relation to managed advances, to 9.35% in H1 FY2019 (7.28% in FY2018). The operating expenses moderated over a growing portfolio base to 5.60% in H1 FY2019 from 6.00% in FY2018. In H1 FY2019, the impact of credit costs on the on-book portfolio was limited on account of low delinquencies, while there were some loan write-offs in the BC portfolio in Maharashtra and Karnataka. Overall, the profitability profile was moderate with PAT/AMA and RoE of 2.08% and 18.67%, respectively, in H1 FY2019 (0.59% and 10.31%, respectively, in FY2018). Given the company's growth plans for existing states and newer geographies, the operating expenses are likely to remain stable and profitability would be dependent on company's ability to maintain credit costs at reasonable levels.

Ability to manage political and communal risks and the marginal borrower profile - Unsecured lending to the marginal borrower profile, and the political and operational risks associated with microlending may lead to high volatility in the asset quality indicators. The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations, and thus its financial position. However, a geographically diversified portfolio would mitigate these risks to some extent as these issues are largely region specific so far. The company's ability to onboard borrowers with good credit history, recruit and retain employees and maintain geographical diversity would be key for managing high growth rates.

Liquidity position

VFPL had cash and liquid investments of around Rs. 68 crore as on September 30, 2018 and a comfortable liquidity profile with monthly collections of around Rs. 12-13 crore on the on-book portfolio to service the monthly debt repayments of Rs. 8-10 crore over the next 4-6 months. The company has unutilised lines from the BC partners to support the scale up of operations. While VFPL has adequate liquidity to service debt repayments, it will remain critical for the company to tie up funds in a timely manner to support its growth plans.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group support	NA
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Vaya Finserv Private Limited was incorporated in March 2014. It is promoted by Vaya Trusts, earlier known as the SKS Mutual Benefit Trusts, and Mr. Vikram Akula who had promoted Bharat Financial Inclusion Limited (earlier known as SKS Microfinance), one of the earliest microfinance companies in India. It is an authorised BC for two banks (RBL Bank and Yes Bank) and Reliance Commercial Finance Limited (RCFL) in India. The company provides micro loans under the joint liability group (JLG) model and credit linked insurance. Its loans qualify for priority sector lending for banks. As on September 30, 2018, the company operated in 78 districts in seven states including Odisha (31%), Bihar (29%), Jharkhand (18%), Maharashtra (11%), Karnataka (10%) with a small proportion in Tamil Nadu and Telangana.

In FY2018, the company reported a net profit of Rs. 3.67 crore on a managed portfolio of Rs. 689.11 crore compared to a net profit of Rs. 5.60 crore on a managed portfolio of Rs. 376.69 crore in FY2017. In H1 FY2019, the company reported a net profit of Rs. 10.02 crore on a managed portfolio of Rs. 968.05 crore as on September 30, 2018.

Key financial indicators (audited)

	FY2017	FY2018	H1 FY2019*
Net interest income	0.00	1.46	15.35
Profit before tax	3.66	4.62	14.35
Profit after tax	5.60	3.67	10.02
On-book portfolio	0.00	92.01	317.68
Managed portfolio (including off-balance sheet receivables)	376.69	689.11	968.05
Total managed assets	431.65	819.04	1,105.65
% Tier-1	NA	34.23%	37.93%
% CRAR	NA	34.23%	37.93%
Gearing (times)	1.21	2.76	1.62
% Net profit/Average managed assets	1.57%	0.59%	2.08%
% Return on net worth	41.46%	10.31%	18.67%
% Gross NPA^	0.00%	0.00%	0.04%
% Net NPA^	0.00%	0.00%	0.00%
Net NPA/Net worth	0.00%	0.00%	0.00%

**Provisional numbers for H1 FY2019; Amounts in Rs. crore; All ratios as per ICRA calculations; ^On-book portfolio*

PAT: Profit after tax; NIM: Net interest margin; AMA: Average managed assets; RoMA: Return on managed assets; RoE: Return on equity

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)	FY2019 January 2019	October 2018	FY2018 February 2018	FY2017 -	FY2016 -
1	Term Loans	Long Term	168.41	168.41	[ICRA]BBB (stable)	[ICRA]BBB- (stable)	[ICRA]BBB- (stable)	-	-
2	Bank Lines: Unallocated	Long Term	331.59	0.00	[ICRA]BBB (stable)	[ICRA]BBB- (stable)	[ICRA]BBB- (stable)	-	-
3	Non-convertible Debentures	Long Term	25.00	25.00	[ICRA]BBB (stable)	[ICRA]BBB- (stable)	-	-	-
4	Non-convertible Debentures	Long Term	43.00	43.00	[ICRA]BBB (stable)	[ICRA]BBB- (stable)	-	-	-
	Total		**568.00**	**236.41**					

^As on December 31, 2018

Complexity level of the rated instruments

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: List of instruments

ISIN No	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE02DI07019	NCD	09/10/2018	13.90%	31/03/2023	25.00	[ICRA]BBB(stable)
INE02DI07027	NCD	08/10/2018	13.10%	21/10/2022	43.00	[ICRA]BBB(stable)
Sub-total (A)					**68.00**	
NA	Term loan 1	30/08/2018	13.50%	25/08/2020	6.39	[ICRA]BBB(stable)
NA	Term loan 2	21/09/2018	13.50%	27/09/2020	8.75	[ICRA]BBB(stable)
NA	Term loan 3	06/12/2018	13.75%	05/01/2021	10.00	[ICRA]BBB(stable)
NA	Term loan 4	30/06/2018	13.55%	02/07/2021	13.26	[ICRA]BBB(stable)
NA	Term loan 5	31/07/2018	13.00%	19/09/2020	13.33	[ICRA]BBB(stable)
NA	Term loan 6	02/08/2018	13.90%	30/09/2021	9.32	[ICRA]BBB(stable)
NA	Term loan 7	21/05/2018	13.90%	29/05/2020	18.43	[ICRA]BBB(stable)
NA	Term loan 8	22/06/2018	13.90%	29/06/2020	19.39	[ICRA]BBB(stable)
NA	Term loan 9	21/05/2018	13.75%	01/12/2019	6.89	[ICRA]BBB(stable)
NA	Term loan 10	16/08/2018	13.60%	05/09/2020	13.36	[ICRA]BBB(stable)
NA	Bank Lines (unallocated)	-	-	-	331.59	[ICRA]BBB(stable)
Sub-total (B)					**500.00**	
Total (A) + (B)					**568.00**	

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA		

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