

May 15, 2019

Svasti Microfinance Private Limited: Ratings confirmed for pass through certificates (PTCs) issued under a micro loan receivables securitisation transaction originated by Svasti Microfinance Private Limited, as final

Summary of rated instruments

Issue Name	Instrument*	Initial Amount (Rs. Crore)	Rated Amount (Rs. Crore)	Rating action
Vivriti Ellaria 01 2019	PTC Series A1	14.90	14.90	Provisional rating of [ICRA]A-(SO) confirmed as final
	PTC Series A2	0.88	0.88	Provisional rating of [ICRA]BBB (SO) confirmed as final

*Instrument details are provided in Annexure-1

Rationale

ICRA has confirmed the provisional ratings assigned to PTCs issued by Vivriti Ellaria 01 2019 trust as final, as tabulated above.

In February 2019, ICRA had assigned Provisional [ICRA]A-(SO) and Provisional [ICRA]BBB(SO) ratings to PTC Series A1 and PTC Series A2 under a securitisation transaction backed by micro loan receivables originated by Svasti Microfinance Private Limited (Svasti). Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit strengths

- The first line of support is available for the transaction through subordination of 15.00% and 10.00% of pool principal for PTC Series A1 and A2 respectively
- Further credit support in the transaction is available through subordination of the excess interest spread (EIS) amounting to around 11.06% of the pool principal amount for PTC A1 and 10.14% of the pool principal amount for PTC A2; followed by a Credit Collateral (CC) equivalent to 6.25% of the initial pool principal amount
- Favorable selection filters for the pool like absence of overdue contracts and most of the contracts from districts that have a portfolio 0+ dpd lesser than 1% as of September 2018

Credit challenges

- Moderate seasoning of 21.2 weeks and moderate pre-securitization amortization of the contracts in the pool by 23.4%
- High geographical concentration of the contracts in the pool with the top 5 districts accounting for 66% of the pool principal

Description of key rating drivers highlighted above

The first line of support for Series A1 PTCs in the transaction is in the form of subordination of 15.00% of the pool principal (includes principal payable to PTC A2 and over collateralisation). After PTC A1 has been fully paid, subordination of 10.00% of the pool principal will be available for PTC A2. An important feature of the structure in this transaction is that any collection in excess of the promised interest payouts to PTC A1 would be first utilised for payment of scheduled principal of PTC A1 and then for expected interest payouts to PTC A2. After PTC A1 is completely amortised the same would be utilised for payment of promised interest and scheduled principal to PTC A2.

Cash collateral of 6.25% of the initial pool principal provided by Svasti acts as further credit enhancement in the transaction. In the event of shortfall in meeting the promised PTC payouts during any month, the Trustee will utilize the cash collateral to meet the shortfall. Additionally, EIS available in the structure will also provide credit enhancement support.

There are no overdues in the pool as on the cut-off date, and the pool has low share of contracts belonging to districts which have reported 0+ dpd greater than 1% in the portfolio as on Sep-18. The geographical concentration of the loan contracts in the current pool is very high with top state – Maharashtra - constituting about 78% of the pool principal and the top five districts constituting 66% of the pool principal.

64.1% of borrowers in the pool have completed 1 or more loan cycles as on the pool cut-off date. The pool consists of loans that have moderate seasoning with weighted average seasoning of 21.2 weeks and have moderate pre-securitisation amortisation of 23.4%. Additionally, the door to door residual tenure of the contracts is moderate at 88 weeks. The contracts have an average ticket size of Rs. 27,225 which is in line with industry standards.

Performance of past rated pool: ICRA has ratings outstanding on one microfinance loan receivable pool originated by Svasti. The performance of the live pool has been good with cumulative collection efficiency standing at 97.6% and 30+ dpd at 0.83% after March 2019 payout.

Key rating assumptions

ICRA's cash flow modeling for rating ABS transactions involves simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for mean shortfall and the Co-efficient of Variation (CoV) are arrived on the basis of the values observed in the analysis of the Originator's loan portfolio. 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 pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 4.5% - 5.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 6% - 9% per annum.

Liquidity position

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. This structural feature imparts significant liquidity in the transaction, as even a small amount of collections in the underlying pool contracts would be sufficient to meet the promised PTC payouts.

Additionally, there is cash collateral available in the transaction amounting to 6.25% of the pool principal amount. The cash collateral is adequate to meet promised interest payouts for a period of 7 months.

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

Svasti Microfinance Pvt Ltd (Svasti) is a Mumbai based MFI that aims to provide comprehensive financial services to the low income segments of society in Mumbai. It was started by P Arunkumar (Lawyer) & B Narayanan (CA) with support from Michael and Susan Dell Foundation, as a Sec 25 Company named Svasti Foundation, in August 2008. In March 2010, it acquired an existing NBFC (Easy Housing and Finance Limited) for its NBFC license by raising Rs.5.45 Crore from MSDF, Kotak Bank and HNIs. The company is headquartered in Mumbai and as on Sep-18, Svasti operates out of 35 branches across three states and has a portfolio of Rs. 239.40 crore.

The delinquency levels for the JLG Loans, which is the key product of Svasti, had remained negligible in the past, especially prior to demonetisation. However, the delinquencies rose sharply in the portfolio in the aftermath of the demonetisation with 0+ dpd rising to 4.24% in Mar-17. The asset quality has improvement in the last 12 months with 0+ dpd standing low at 1.19% in Oct-18. There were no write-offs in Svasti's portfolio in FY 2018.

In FY2018, the company reported a PAT of Rs. 0.97 crore on an operating income base of Rs. 19.05 crore compared to a PAT of Rs. 0.15 crore on an operating income base of Rs. 11.40 crore in FY2017. In H1 FY2019, the company reported a PAT of Rs. 2.07 crore on an operating income base of Rs. 12.93 crore.

Key Financial Indicators

Particulars	FY2017	FY2018	H1 FY2019
Net Worth (Rs. Crore)	19.23	31.89	33.96
Operating Income (Rs. Crore)	11.40	19.05	12.93
Profit after tax (Rs. crore)	0.15	0.97	2.07
PAT/Average Total Assets	0.2%	0.5%	1.8%
PAT/Average Net worth	0.8%	3.8%	12.5%
Gearing (times)	5.12	6.20	5.72

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	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019*	Date & Rating in FY2018	Date & Rating in FY2017
				May 2019	February 2019	-	-
1 Vivriti Ellaria 01 2019	PTC Series A1	14.90	14.90	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-
	PTC Series A2	0.88	0.88	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	-	-

**Initial Ratings assigned*

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

Annexure-1: Instrument Details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Vivriti Ellaria	PTC Series A1	February	12.30%	November	14.90	[ICRA]A-(SO)
01 2019	PTC Series A2	2019	14.50%	2020	0.88	[ICRA]BBB(SO)

* Scheduled maturity and average life at transaction initiation; may change on account of prepayment

ANALYST CONTACTS

Vibhor Mittal

+91 22 6114 3440

vibhorm@icraindia.com

Abhijeet Ajinkya

+91 22 6114 3434

abhijeet.ajinkya@icraindia.com

Rahul Panigrahi

+91 22 6114 3436

rahul.panigrahi@icraindia.com

Apurva Sharma

+91 22 6114 3452

apurva.sharma@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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