

December 06, 2019

Vistaar Financial Services Pvt Ltd : Provisional ratings assigned to pass through certificates (PTCs) issued under a small business loan securitization transaction by Northern Arc 2019 SBL Apostle

Summary of rated instruments

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Northern Arc 2019 SBL	PTC Series A1	37.64	Provisional [ICRA]A+(SO) assigned
Apostle	PTC Series A2	2.27	Provisional [ICRA]BBB+(SO) assigned

*Instrument details are provided in Annexure-1

Rationale

ICRA has assigned Provisional [ICRA]A+(SO) [pronounced provisional ICRA A plus (structured obligation)] to Pass through certificates (PTCs) Series A1 and Provisional [ICRA]BBB+(SO) [pronounced provisional ICRA triple B plus (structured obligation)] rating to PTC Series A2, under a securitisation transaction, backed by a Rs. 45.34 crore (principal outstanding) pool of vehicle loans originated Vistaar Financial Services Pvt Ltd (VFSPL).

The provisional ratings are based on the strength of cash flows from the selected pool of contracts; the credit enhancement available in the form of (i) Cash Collateral (CC) of 3.00% of the pool principal to be provided by the Originator, (ii) subordination of 17.00% of the pool principal for PTC Series A1 and 12.00% of pool principal for PTC Series A2, and (iii) the entire Excess Interest Spread (EIS) in the structure. The ratings are also based on the integrity of the legal structure and are subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of principal subordination, EIS and CC
- Absence of overdue contracts as on pool cut-off date
- Moderate weighted average seasoning of 21.6 months

Credit challenges

- High geographical concentration of the contracts in the pool at the state level and high concentration at the district level
- Moderate share of high ticket size loans in the pool

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of subordination of 17.00% of the pool principal (includes principal payable to PTC Series A2 and over-collateralization). After PTC Series A1 has been fully paid, subordination of 12.00% of the pool principal will be available for PTC Series A2 (in the form of over-collateralization). As per the waterfall mechanism applicable for the transaction, monthly pool collections shall be used for meeting the

promised interest payouts and expected principal payouts to PTC Series A1 and expected interest payouts to PTC Series A2. After PTC Series A1 has completely amortised, the monthly pool collections shall be utilised for meeting promised interest payouts and expected principal payouts to PTC Series A2. All excess collections after meeting the aforementioned payouts shall flow back to the originator on a monthly basis.

CC of 3.00% of the initial pool principal provided by VFSPL 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 CC to meet the shortfall.

The pool consists of Small Business Loans (SBLs) with moderate weighted average seasoning and no overdue as on cut-off date. The weighted average seasoning of the pool is 21.61 months.

The pool has high geographic concentration with contracts from only 9 states with top state of Tamil Nadu accounting for ~83% of the overall pool principal followed by Karnataka accounting for ~9% of the overall pool principal amount. At a district level, the top district accounts for ~22% of the overall pool principal while the top 5 districts account for ~45% of the overall pool principal amount.

Performance of past rated pools: ICRA has thus far rated seven pools backed by small business loan receivables originated by VFSPL and has ratings outstanding on two pools as on November 30, 2019 and three pools matured till date. The performance of the outstanding pools which have completed atleast three months post securitisation is characterised by moderate cumulative collection ratios of around 95.0%. However, no CC has been used till date.

Key rating assumptions

ICRA's cash flow modelling 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 prevalent macroeconomic 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 5.5% - 6.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 8% - 12% per annum.

Liquidity position

Liquidity position for PTC Series A1: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC Series A1 investors. The proposed CC is adequate to meet promised interest payouts for senior PTCs for a period of 3 months.

Liquidity position for PTC Series A2: Adequate

As per the transaction structure, after PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be adequate to meet the promised payouts to PTC Series A2 investors.

Analytical approach

The rating action is based on the analysis of the past performance of VFSPL's portfolio till September 2019, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

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

Rating sensitivities

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

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

About the company

VFSPL is a Bangalore based Non-Banking Financial Company (NBFC) catering to small businesses primarily in the rural and semi-urban areas. Small Business Mortgage Loans (SBML) - which is VFSPL's largest product segment accounting for 99% of its portfolio as on March 31, 2019), has an average tenure of about 54 months (Max 144 months) and ticket size is in the range of Rs.1.0 lakh to Rs.50.0 lakh. The total managed portfolio of the company, as on March 31, 2019 was Rs. 1,442 crore vis a vis Rs. 1,271 crore as on March 31, 2018. As on March 31, 2019, the net worth of the company was Rs.594.8 crore with managed gearing at 1.6x.

VFSPL is promoted by Mr. Brahmanand Hedge and Mr. Ramakrishna Nishtala - both the promoters have prior experience in retail lending business. The company had received capital of Rs. 25 crore from two PE investors till March 2012. VFSPL raised fresh capital of Rs. 40 crore as compulsorily convertible preference shares (CCPS) during FY2013 and Rs.160 crore during Q1 FY2015. The company further raised Rs. 250 crore fresh capital in the form of CCPS in August 2015. The company operates through its 220 branches in 14 states including Tamil Nadu, Karnataka, Maharashtra, Gujarat, Chhattisgarh, Madhya Pradesh, Rajasthan, Odisha, Uttar Pradesh, Uttarakhand, Haryana, Telangana, Andhra Pradesh and Delhi as in March 2019.

VFSPL currently has a rating of [ICRA]A-(Stable) for its long-term debt.

Key financial indicators

Fiscal	FY2017 (audited)	FY2018* (audited)	FY2019* (audited)
Total income	269.5	292.9	308.6
Profit after tax	33.4	32.59	33.7
Net worth	541.3	559.2	594.7
Total managed portfolio	1,123.7	1,270.2	1,441.6
Total managed assets	1,318.5	1,333.6	1,539.7
Return on average total assets (%)	2.9%	2.5%	2.3%
Return on average net worth (%)	6.4%	6.0%	5.8%
Gross NPA (%)	3.2%	3.9%	3.4%
Net NPA (%)	1.5%	2.8%	2.6%
Net NPA / Net worth	3.1%	6.2%	6.4%
Managed gearing (times)	1.3	1.3	1.6
CRAR (%)	46.1%	42.9%	40.3%

Note: Amounts in Rs. crore; *Ind AS

Source: VFSPL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Disclosure: A Member of the Board of Directors of ICRA Limited is also an Independent Director on the Board of Directors of Vistaar Financial Services Private Limited (VFSPL). This Director was not involved in any of the discussions and processes related to the Rating of the instrument(s) mentioned herein.

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
					06-Dec-2019	-	-	-
1	Northern Arc 2019 SBL Apostle	PTC Series A1	37.64	37.64	Provisional [ICRA]A+(SO)	-	-	-
		PTC Series A2	2.27	2.27	Provisional [ICRA]BBB+(SO)	-	-	-

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	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Northern Arc 2019 SBL Apostle	PTC Series A1	Nov 2019	11.25%	Jan 2024	37.64	Provisional [ICRA]A+(SO)
	PTC Series A2		14.09%		2.27	Provisional [ICRA]BBB+(SO)

* the actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

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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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