May 27, 2022

Vaya Finserv Private Limited: Ratings reaffirmed/assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities	800.00	1,000.00	[ICRA]BBB (Stable); assigned/reaffirmed
Non-convertible debentures	229.00	229.00	[ICRA]BBB (Stable); reaffirmed
Non-convertible debentures	41.00	0.00	[ICRA]BBB (Stable); reaffirmed and simultaneously withdrawn
Commercial paper programme	50.00	50.00	[ICRA]A3+; reaffirmed
Total	**1,120.00**	**1,279.00**	

**Instrument details are provided in Annexure-1*

In addition to the above instruments, ICRA has a rating outstanding on VFPL's pooled loan issuance (PLI) programme and pass-through certificates; refer to these links for details: Link 1, Link 2

Rationale

The ratings factor in the adequate capitalisation profile of Vaya Finserv Private Limited (VFPL) and the improvement in the diversity of its funding profile. The company is sufficiently capitalised with a capital adequacy ratio (provisional) of 25.7% (Tier I: 25.6%) and a low managed gearing[1] of 3.9 times as on March 31, 2022 (provisional). The funding profile and financial flexibility have also improved aided by the sanctions availed from banks under the Credit Guarantee Scheme (CGS) for microfinance institutions (MFIs). The ratings continue to factor in the company's adequate loan origination, collection and monitoring systems, supported by its management information system (MIS) and information technology (IT) system.

The ratings are, however, constrained by the company's moderate scale and geographically concentrated operations. ICRA notes that VFPL reported a modest growth of 5% in its assets under management (AUM) in FY2022 as it has discontinued its business correspondent (BC) operations. However, its on-book portfolio has grown at a healthy pace at the same time. Further, VFPL's overall asset quality indicators have weakened due to the impact of the Covid-19 pandemic, with gross non-performing assets (GNPAs) of 3.1% as on March 31, 2022 (provisional) compared to 2.8% as on March 31, 2021. This, nevertheless, represented a sequential improvement as the GNPAs were 4.7% as on December 31, 2021 (provisional). Consequent to the deterioration in the asset quality indicators due to the pandemic in FY2022, the credit cost for the fiscal was elevated. The company reported a net profit of Rs. 12 crore in FY2022 (provisional), translating into an annualised return of 0.8% on average managed assets[2] (AMA) and 4.1% on average net worth.

Nevertheless, ICRA draws comfort from the fact that the company does not have a restructured portfolio and hence the repayment behaviour of stressed borrowers is reflected in current delinquencies. However, VFPL's ability to arrest further slippages and recover from overdue accounts will remain a monitorable. On an overall basis, ICRA expects the credit cost to decline in FY2023. This, supported by an increase in yields, would improve the company's profitability profile. The ratings continue to factor in the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations.

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[1] *Managed gearing = (on-book borrowings incl. accrued interest + securitised/assigned portfolio)/ (net worth less cash collateral or fixed deposits for BC activities)*

[2] *Total managed assets = (Total assets + direct assignment portfolio + BC portfolio)*

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that VFPL will continue to benefit from its adequate loan origination and management systems and its adequate capitalisation and liquidity profile.

ICRA has simultaneously reaffirmed and withdrawn the rating on the Rs. 41-crore non-convertible debenture as the same has been repaid on maturity by the company and there is no amount outstanding against the rated instrument. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Adequate capitalisation profile – The company's reported capital adequacy ratio of 25.7%, as on March 31, 2022 (provisional; 34.5% as on March 31, 2021), was well above the regulatory requirement of 15% while the gearing (on-book) was low at 3.9 times. The adjusted gearing was also low at 3.9 times as on March 31, 2022 (provisional; 2.6 times as on March 31, 2021 and 3.9 times as on March 31, 2020). The promoters, Vaya Trusts, infused Rs. 100 crore of equity capital in December 2020, which helped VFPL scale up its own portfolio while maintaining a prudent capitalisation profile. At present, VFPL is adequately capitalised with a net worth (provisional) of Rs. 310 crore as on March 31, 2022 (provisional; 26% of the AUM).

Improved diversity in funding profile – The company has been able to raise funds for scaling up its own portfolio and had relationships with 30 lenders as on March 31, 2022. It raised Rs. 988 crore of debt from 22 different lenders/investors, including banks. The borrowing profile comprised term loans from banks (53%), debt securities (22%), term loans from NBFCs/FIs (18%) and securitisation (7%) as on March 31, 2022. The company has been able to increase its share of term loans from banks supported by the CGS for MFIs. Consequently, the cost of average interest-bearing funds declined to 10.1% in FY2022 from 12.1% in FY2021. Given its growth plans, VFPL's ability to timely raise funds to support the envisaged growth will be a key monitorable.

Adequate loan origination and management systems – VFPL has an adequate IT infrastructure with the real-time tracking of the field-level data related to the borrowers, districts and branches. The real-time credit bureau checks enable VFPL to reduce its turnaround time. Disbursements are through the cashless mode. The company has also revamped its systems and processes to adhere to the revised regulations for MFIs. The data management is commensurate with the current scale of operations with adequate capacity to allow the further scale-up of the operations.

Credit challenges

Moderate scale and geographically concentrated operations – As on March 31, 2022, VFPL's operations were spread across 91 districts in 7 states with a portfolio of Rs. 1,202 crore (Rs. 1,139 crore as on March 31, 2021). The company reported a modest 5% growth in the portfolio as disbursements were hindered by the disruptions caused by the second wave of the Covid-19 pandemic and the discontinuation of the BC arrangements with Yes Bank Limited and RBL Bank Limited. Nevertheless, the company continues to scale up its own portfolio, which increased to Rs. 1,107 crore as on March 31, 2022 from Rs. 730 crore as on March 31, 2021 (growth of 52%).

The portfolio concentration remained high with the top 3 states accounting for nearly 73% of the portfolio as on March 31, 2022 (80% as on December 31, 2020). The top 10 and top 20 districts comprised 28% and 47%, respectively, of the AUM (25% and 43%, respectively, as on December 31, 2020) and 108% and 182%, respectively, of the net worth as on March 31, 2022 (89% and 152%, respectively, as on December 31, 2020). Going forward, the company's ability to further diversify its operations geographically while increasing its scale of operations and maintaining the asset quality will remain important from a credit perspective.

Deterioration in asset quality amid the pandemic – The company's overall asset quality indicators have weakened due to the impact of Covid-19 pandemic, with GNPAs of 3.1% as on March 31, 2022 (provisional) compared to 2.8% as on March 31, 2021.

However, it reported a sequential improvement in the GNPAs in Q4 FY2022 from the reported GNPAs of 4.7% as on December 31, 2021 (provisional), aided by the improvement in the collection efficiency, write-offs and the increase in the scale of operations. The net NPAs were lower at 1.1% as on March 31, 2022 (provisional). The collection efficiency has been improving with VFPL reporting a collection efficiency (including overdue collections) of 111.6% in March 2022 (94.1% in December 2021) compared to the low of 80.5% in May 2021.

Subdued profitability – The company reported a net profit of Rs. 12 crore in FY2022 (provisional), translating into an annualised return of 0.8% on AMA and 4.1% on average net worth. The net interest margins declined in FY2022 to 7.2% of AMA from 8.4% in FY2021, despite the decline in the cost of average interest-bearing funds. This was due to the discontinuation of BC activities, write-offs in the loan portfolio and increase in the gearing level. Operating expenses remained largely stable at 4.6% of AMA in FY2022 compared to 4.7% in FY2021. The overall profitability remained subdued due to the elevated credit costs. The company reported credit costs of 2.3% of AMA in FY2022 (3.2% in FY2021) driven by the deterioration in the asset quality indicators and the consequent increase in the provisioning requirement due to the impact of Covid-19. On an overall basis, ICRA expects the credit costs to decline in FY2023. This, supported by an increase in yields, would improve VFPL's profitability profile.

Ability to manage political, communal, and other risks, given the marginal borrower profile – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Further, political and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political, climatic, and operational risks, which could negatively impact VFPL's operations. The company's ability to onboard borrowers with a good credit history, recruit and retain employees and improve the geographical diversity of its operations would be key for managing high growth rates.

Liquidity position: Adequate

As on March 31, 2022, the company had free cash and bank balance and liquid investments of Rs. 321 crore, and scheduled inflows from advances of Rs. 474 crore against scheduled debt repayments of Rs. 393 crore during April 01, 2022 to September 30, 2022. Factoring in the expected collections from advances, the liquidity profile is comfortable for meeting the debt obligations in a timely manner. As per the asset-liability management (ALM) profile as on March 31, 2022, VFPL had no cumulative mismatches for at least one year, even under a stressed scenario with the collection efficiency assumed at 80%. Additionally, it had Rs. 134 crore of sanctioned unutilised funding lines as on March 31, 2022, which support its liquidity profile.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the ratings if there is a sustained improvement in VFPL's profitability indicators with a return on managed assets (RoMA) of more than 2.5%. Further improvement in the scale of operations and geographical diversification, while maintaining the asset quality and prudent capitalisation with a managed gearing of less than 5 times on a sustained basis, could positively impact the ratings.

Negative factors – Pressure on the company's ratings could arise if there is a deterioration in the asset quality or operational efficiency, which could materially affect its profitability on a sustained basis. A deterioration in the capitalisation profile with the managed gearing exceeding 6 times or a weakening in the liquidity could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Vaya Finserv Private Limited (VFPL), incorporated in March 2014, is an NBFC-MFI with its registered office in Hyderabad. The company provides microloans under the joint liability group (JLG) model along with credit-linked insurance. VFPL was operating in 7 states through a network of 266 branches spread across 91 districts, catering to more than 4.8 lakh borrowers with a managed loan portfolio of Rs. 1,202 crore as on March 31, 2022.

Key financial indicators (audited)

Vaya Finserv Private Limited	FY2020	FY2021	FY2022*
Accounting as per	**Ind-AS**	**Ind-AS**	**Ind-AS**
Profit after tax (Rs. crore)	7	10	12
Net worth (Rs. crore)	186	297	310
Total managed assets (Rs. crore)	1,386	1,452	1,588
Return on average managed assets (%)	0.5%	0.7%	0.8%
Return on average net worth (%)	3.6%	4.0%	4.1%
Gross gearing (times)	3.2	2.3	3.9
Managed gearing (times)	3.8	2.6	3.9
Gross NPA (%)	0.9%	2.8%	3.1%
Net NPA (%)	0.3%	1.6%	1.1%
Solvency (Net NPA/Net worth)	1.1%	3.9%	4.4%
CRAR (%)	24.6%	34.5%	25.7%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years										
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Apr 30, 2022 (Rs. crore) *	Date & Rating in FY2023	Date & Rating in FY2022			Date & Rating in FY2021			Date & Rating in FY2020			
					May 27, 2022	Feb 14, 2022	Jul 01, 2021	Apr 23, 2021	Mar 31, 2021	Nov 24, 2020	Sep 28, 2020	Mar 27, 2020	Jan 02, 2020	Oct 16, 2019	Apr 23, 2019
1	Non-convertible debentures	Long term	229.00	229.00	[ICRA]BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA]BBB&	[ICRA]BBB&	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)
2	Non-convertible debentures	Long term	41.00	0.00	[ICRA]BBB (Stable); reaffirmed and simultaneously withdraw	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA]BBB&	[ICRA]BBB&	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)
3	Bank lines	Long term	1,000.00	808.43	[ICRA]BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA]BBB&	[ICRA]BBB&	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)
4	Commercial paper programme	Short term	50.00	0.00	[ICRA]A3+	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+	[ICRA]A3+&	[ICRA]A3+&	[ICRA] A3+	[ICRA] A3+	-	-

***Source:** *Company*

& Under rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Simple
Bank lines	Simple
Commercial paper programme	Very Simple

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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE02DI07035	Non-convertible debentures	Oct 13, 2018	13.9%	Mar 31, 2023	25	[ICRA]BBB (Stable)
INE02DI07068	Non-convertible debentures	Oct 24, 2018	13.1%	Jun 02, 2022	43	[ICRA]BBB (Stable)
INE02DI07043	Non-convertible debentures	May 20, 2019	13.1%	May 20, 2022	41	[ICRA]BBB (Stable); reaffirmed and simultaneously withdrawn
INE02DI07050	Non-convertible debentures	Oct 22, 2019	12.9%	Oct 22, 2025	35	[ICRA]BBB (Stable)
INE02DI07084	Non-convertible debentures	Nov 27, 2020	11.7%	Nov 24, 2023	22	[ICRA]BBB (Stable)
INE02DI07076	Non-convertible debentures	Nov 27, 2020	11.7%	Nov 24, 2023	22	[ICRA]BBB (Stable)
INE02DI07092	Non-convertible debentures	Mar 30, 2021	12.4%	Mar 30, 2023	23	[ICRA]BBB (Stable)
INE02DI07100	Non-convertible debentures	Jul 30, 2021	11.7%	Jul 30, 2024	37	[ICRA]BBB (Stable)
INE02DI07118	Non-convertible debentures	Aug 20, 2021	11.7%	Aug 20, 2024	22	[ICRA]BBB (Stable)
NA	Long-term bank facilities	May 31, 2019 – Mar 31, 2022	8.7% - 13.9%	Feb 08, 2022 – Mar 22, 2025	1,000	[ICRA]BBB (Stable)
NA	Commercial paper programme – Proposed/yet to be issued	NA	NA	7-365 days	50	[ICRA]A3+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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