April 04, 2023

Vistaar Financial Services Pvt Ltd: Provisional [ICRA]AA+(SO) assigned to PTCs backed by small business mortgage loan receivables issued by Bloom 03 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Bloom 03 2023	PTC Series A1	25.20	Provisional [ICRA]AA+(SO); Assigned

**Instrument details are provided in Annexure I*

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful

Rationale

ICRA has assigned a Provisional [ICRA]AA+(SO) rating to PTC Series A1 issued under a securitisation transaction originated by Vistaar Financial Services Pvt Ltd {VFSPL/originator; rated [ICRA]A(Stable)/[ICRA]A1}. The pass-through certificates (PTCs) are backed by a pool of Rs. 58.15-crore small business mortgage loan receivables (underlying pool principal of Rs. 28.64 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 8.00% of the pool principal to be provided by VFSPL, (ii) subordination (in the form of over-collateralisation and equity tranche) of 12.00% of the pool principal for PTC Series A1 and (iii) the entire excess interest spread (EIS) of 61.7% of the pool principal in the structure, as well as the integrity of the legal structure. The provisional rating is 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 CE in the form of subordination, EIS and CC
- There are no overdue contracts in the pool
- Around 44% of the contracts in the pool have a CIBIL score of more than 750

Credit challenges

- High geographical concentration with top 3 states contributing to ~90% of the pool principal
- Exposure to interest rate risk given that the yield on PTC Series A1 is floating and the pool yield is fixed
- Performance of the pool could also be affected by macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation (i.e. subordination and equity tranche) of 12.00% of the pool principal. Further credit support is available in the form of an EIS of 61.7% and a CC of 8.00% of the pool principal (i.e. Rs. 2.29 crore) to be provided by VFSPL.

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A1 at the predetermined interest rate on the principal outstanding. The principal repayment to PTC Series A1 is promised on the last payout date. During the tenure of PTC Series A1, the collections from the pool, after making the promised interest payouts, will be used to make the expected principal payouts to PTC Series A1. This principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. The EIS, if any, shall flow back to the originator on every payout date after making all the payouts to PTC Series A1 as per the waterfall mechanism. Also, in the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the same.

The underlying loans follow a monthly payment schedule. There are no overdues in the pool as on the cut-off date and none of the loans in the pool are restructured. The average pre-securitisation amortisation stood at ~5% as on the cut-off date. Further, ~44% of the contracts in the pool have a CIBIL score of more than 750. The pool has high geographical concentration with the top 3 states (Karnataka, Tamil Nadu and Andhra Pradesh) contributing ~90% to the initial pool principal amount. The interest rate for the contracts in the pool is fixed while the PTC yield is linked to an external benchmark, thereby creating an interest rate risk in the structure. The pool's performance would remain exposed to macro-economic shocks/business disruptions.

Past rated pools' performance: ICRA has rated nine PTC transactions backed by small business loan receivables originated by VFSPL, of which two are live. The live pools have shown healthy collection efficiency with nil CC utilisation and the loss-cum-30+ days past due (dpd) was below 2.5% as of the February 2023 payout.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and the rated pools as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.0-5.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-18.0% per annum.

Liquidity position: 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. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC Series A1 investors.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the CE would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher CE utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the analysis of the performance of VFSPL's portfolio till February 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE 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

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

VFSPL is a Bengaluru-based non-banking financial company (NBFC) catering to small businesses. It commenced operations in 2010 with focus on microfinance (MF) loans. However, it shifted its focus to providing loans to micro, small and medium enterprises (MSMEs) in rural and semi-urban areas from April 2011 and stopped disbursing new MF loans from August 2011. The company mainly provides small business mortgage loans (SBMLs). Small businesses funded by VFSPL include kirana/general stores/shops, power/auto/handlooms, dairy and allied products, and small manufacturing units.

VFSPL is promoted by Mr. Brahmanand Hegde and Mr. Ramakrishna Nishtala, who have prior experience in the retail lending business. The company received capital of Rs. 25 crore from two private equity (PE) investors till March 2012. It subsequently raised additional capital of Rs. 40 crore as compulsorily convertible preference shares (CCPS) in FY2013 and Rs. 160 crore in Q1 FY2015. In FY2016, VFSPL received another capital infusion of about Rs. 250 crore from the existing investors. The company operates through 205 branches in 12 states/Union Territories, including Tamil Nadu, Karnataka, Maharashtra, Gujarat, Madhya Pradesh, Rajasthan, Odisha, Uttar Pradesh, Andhra Pradesh, Telangana, Haryana and Delhi as of September 2022.

Key financial indicators (audited)

Vistaar Financial Services Pvt Ltd	FY2020	FY2021	FY2022	H1 FY2023
Total income	368.4	390.8	433.6	268.5
Profit after tax	45.0	64.8	74.2	56.1
Net worth	640.2	703.5	784.9	842.3
Loan book	1,863.9	2,050.7	2,394.2	2,669.8
Total managed assets[1]	2,104.4	2,438.0	2,936.7	3,211
Return on managed assets	2.5%	2.9%	2.8%	3.7%
Return on net worth	7.3%	9.6%	10.0%	13.8%
Managed gearing (times)	2.1	2.3	2.6	2.7
Gross stage 3	3.7%	3.2%	2.7%	3.1%
Net stage 3	2.5%	2.2%	1.9%	2.1%
Solvency (Net stage 3/Net worth)	6.9%	6.0%	5.5%	6%
CRAR	37.6%	36.5%	30.0%	28.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					April 04, 2023	-	-	-
1	**Bloom 03 2023**	PTC Series A1	25.20	25.20	**Provisional [ICRA]AA+(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	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: Click Here

[1] *Total managed assets = Total assets + Off-book AUM*

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate*	Maturity Date**	Amount Rated (Rs. crore)	Current Rating
Bloom 03 2023	PTC Series A1	March 2023	9.00%*	June 2037	25.20	Provisional [ICRA]AA+(SO)

**Floating interest rate linked to RBI Repo*
***Scheduled maturity date at transaction initiation; may change on account of prepayments*

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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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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