

November 27, 2023

Vistaar Financial Services Pvt Ltd: Rating reaffirmed for SNs issued under small business mortgage loan receivables transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Jiraiya Trust 07 2022	SN Series A1	29.13	NA	15.80	[ICRA]AA+(SO); reaffirmed

*Instrument details are provided in Annexure I

Rationale

The securitisation notes (SNs) are backed by a pool of small business mortgage loans originated by Vistaar Financial Services Pvt Ltd {VFSPL; rated [ICRA]A (Positive)}. The rating has been reaffirmed on account of the healthy amortisation and healthy performance of the pool, leading to the build-up of the credit enhancement (CE) cover over the future SN payouts. The breakeven collection efficiency is significantly below the actual collection level observed in the pool.

Pool performance summary

A summary of the performance of the pool till the September 2023 collection (October 2023 payout) month has been tabulated below.

Parameter	Jiraiya Trust 07 2022
Months post securitisation	15
Pool amortisation	39.8%
SN amortisation – SN Series A1	45.8%
Cumulative collection efficiency ¹	99.8%
Loss-cum-0+ (% of initial pool principal) ²	1.7%
Loss-cum-30+ (% of initial pool principal) ³	0.0%
Loss-cum-90+ (% of initial pool principal) ⁴	0.0%
Cumulative prepayment rate	30.3%
Breakeven collection efficiency ⁵ – SN Series A1	51.6%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.0%
CC available (as % of balance pool principal)	13.3%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal) – SN Series A1	48.9%
Principal subordination (% of balance pool principal) – SN Series A1	21.6%

Key rating drivers

Credit strengths

- Healthy amortisation of pool resulting in build-up of cash collateral (CC), subordination and Excess Interest Spread (EIS) cover available for the balance SN payouts.

¹ Cumulative collections till date / Cumulative billings till date + Opening overdues

² POS on contracts aged 0+ dpd + Overdues / Initial POS on the pool

³ POS on contracts aged 30+ dpd + Overdues / Initial POS on the pool

⁴ POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

⁵ It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – CC available) / Balance pool cash flows

- Healthy collection efficiency and low delinquencies exhibited by the pool;

Credit challenges

- High geographical concentration with top three states contributing to 73% of the balance pool principal
- Exposure to interest rate risk given that the yield on SN Series A1 is floating and the pool yield is fixed
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any

Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of 99.8% and nil loss-cum-90+ days past due (dpd) as of the October 2023 payout month. The loss-cum-90+ dpd has been nil during the entire period while delinquencies in the softer buckets have also been low with the loss-cum-0+ dpd at sub-2% throughout. The delinquencies in the pool are lower than the estimate considered at the time of the initial rating exercise. There has been no CC utilisation in the transaction till date. Healthy collections and pool amortisation have led to the build-up of the CE in the pool. The breakeven collection efficiency at the current level is lower compared to the actual collection level. Geographical concentration is high with the top 3 states accounting for 73% of the balance pool principal. The pool has seen higher prepayments with an average monthly prepayment rate of 2.4%. The interest rate for the contracts in the pool is fixed while the SN yield is linked to an external benchmark, thereby creating interest rate risk in the structure. Going forward, the pool's performance will remain exposed to macro-economic shocks/business disruptions.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the rating in the transaction. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

Performance of past rated pools: ICRA has rated nine pass-through certificate (PTC) transactions and four partial credit guarantee (PCG) transactions backed by small business loan receivables originated by VFSPL. The live pools have shown healthy collection efficiency with nil CC utilisation and nil loss-cum-90+ dpd as of the October 2023 payout.

Key rating assumptions

ICRA's cash flow analysis for 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 rated pool 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 2.0-3.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 4.8-18.0% per annum.

Liquidity position: Strong

The liquidity of the rated transaction is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a CC amounting to 13.00% of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the payouts for a period of 28 months.

Rating sensitivities

Positive factors – Sustained strong collection performance of the underlying pool of contracts leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

Negative factors - Sustained weak collection performance of the underlying pool of contracts leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the pool's performance till September 2023 (collection month), the present delinquency-level analysis of the performance of VFSPL's portfolio till June 2023, 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

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 FY2015. In FY2016, VFSPL received another capital infusion of about Rs. 250 crore from the existing investors. The company was acquired by Warburg Pincus LLC, which infused capital of Rs. 300 crore in Q1 FY2024. VFSPL operates through 211 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 March 2023.

Aqua Lagoon Investment Ltd, an affiliate of Warburg Pincus LLC, acquired a majority stake in the company, holding 92.3% of the issued share capital as of May 2023.

Key financial indicators (audited)

	FY2021	FY2022	FY2023
Total income	390.8	433.6	538.9
Profit after tax (PAT)	64.8	74.2	100.0
Assets under management (AUM)	2,065.4	2,419.8	3,132.5
Gross stage 3	3.2%	2.7%	3.8%*
Net stage 3	2.2%	1.9%	2.5%*

Source: Company, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations; *As per RBI circular dated November 2021

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years					
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					November 27, 2023	November 17, 2022	August 02, 2022	-	-	
1	Jiraiya Trust 07 2022	SN Series A1	29.13	15.80	[ICRA]AA+(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-	-	

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Jiraiya Trust 07 2022	SN Series A1	Moderately 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](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate*	Maturity Date**	Amount Rated (Rs. crore)	Current Rating
Jiraiya Trust 07 2022	SN Series A1	July 2022	9.85%	January 2037	15.80	[ICRA]AA+(SO)

*Floating interest rate linked to RBI repo

** Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Priya Gounder

+91 22 6114 3454

priya.gounder@icraindia.com

Vishal Oza

+91 22 6114 3432

vishal.oza@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6169 3304

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:

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.