

November 27, 2023

## Vistaar Financial Services Pvt Ltd: Rating upgraded for assignee payouts issued under small business mortgage loan receivables transaction

### Summary of rating action

| Transaction Name                   | Instrument*      | Initial Rated Amount (Rs. crore) | Amount O/s after Last Surveillance (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action                             |
|------------------------------------|------------------|----------------------------------|--|----------------------------------|---|
| Vistaar BOB DA Pool Dec 2019 (PCG) | Assignee payouts | 67.71                            | 18.48  | 9.19                             | [ICRA]AA+(SO); upgraded from [ICRA]AA(SO) |

\*Instrument details are provided in Annexure I

### Rationale

The assignee payouts are backed by a pool of small business mortgage loans originated by Vistaar Financial Services Pvt Ltd {VFSP; rated [ICRA]A (Positive)}. The rating has been upgraded on account of the significant amortisation and healthy performance of the pool, leading to the build-up of the credit enhancement (CE) cover over the future assignee 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   | Vistaar BOB DA Pool Dec 2019 (PCG) |
|---|------------------------------------|
| Months post securitisation  | 46                                 |
| Pool amortisation   | 82.9%                              |
| Assignee payout amortisation  | 86.2%                              |
| Cumulative collection efficiency <sup>1</sup>                                     | 93.0%                              |
| Loss-cum-0+ (% of initial pool principal) <sup>2</sup>                            | 0.8%                               |
| Loss-cum-30+ (% of initial pool principal) <sup>3</sup>                           | 0.0%                               |
| Loss-cum-90+ (% of initial pool principal) <sup>4</sup>                           | 0.0%                               |
| Cumulative prepayment rate  | 50.6%                              |
| Breakeven collection efficiency <sup>5</sup> – Assignee payouts                   | 44.8%                              |
| Cumulative cash collateral (CC) utilisation (% of initial CC)                     | 0.0%                               |
| CC available (as % of balance pool principal)                                     | 29.2%                              |
| Excess interest spread (EIS) over balance tenure (as % of balance pool principal) | 52.3%                              |

### Key rating drivers

#### Credit strengths

- Significant amortisation of the pool, resulting in build-up of CE cover over future assignee payouts
- Low delinquency levels exhibited by the pool

<sup>1</sup> Cumulative collections till date / Cumulative billings till date + Opening overdues

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

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

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

<sup>5</sup> 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

## Credit challenges

- High state level concentration in the pool with top state of Tamil Nadu having 69% share in balance pool;
- 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 ~93% and nil loss-cum-90+ days past due (dpd) as of the October 2023 payout month. Although the pool had witnessed delinquencies during the Covid-19 pandemic, delinquencies have been declining post the end of the second wave of the pandemic with the monthly collection efficiency exceeding 99% in the last 12 months. The delinquencies in the pool are lower than the estimate considered at the time of the initial rating exercise. There has been no cash collateral (CC) utilisation in the transaction till date. Healthy collections and significant 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 state of Tamil Nadu accounting for ~69% of the balance pool principal. The pool has seen higher prepayments with an average monthly prepayment rate of 2.2%. 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 upgrade 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 VFSP. The live pools have shown a 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 0.5-1.5% 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 in the 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 ~29% 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 assignee payouts for more than 16 months.

## Rating sensitivities

**Positive factors** – The rating would be upgraded once the CC fully covers the future assignee payouts.

**Negative factors** – The sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels, would lead to 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 VF SPL'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 | <a href="#">Rating Methodology for Securitisation Transactions</a> |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | Not Applicable   |

## About the originator

VF SPL 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 VF SPL include kirana/general stores/shops, power/auto/handlooms, dairy and allied products, and small manufacturing units.

VF SPL 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, VF SPL 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. VF SPL 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. | Transaction 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 |
|         |                                    |                  |                                  |                                | Nov 27, 2023                                      | Dec 20, 2022            | Dec 20, 2021            | Dec 30, 2020            |
| 1       | Vistaar BOB DA Pool Dec 2019 (PCG) | Assignee payouts | 67.71                            | 9.19                           | [ICRA]AA+(SO)                                     | [ICRA]AA(SO)            | [ICRA]AA(SO)            | [ICRA]AA(SO)            |

### Complexity level of the rated instrument

| Transaction Name                   | Instrument       | Complexity Indicator |
|------------------------------------|------------------|----------------------|
| Vistaar BOB DA Pool Dec 2019 (PCG) | Assignee payouts | 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: [Click here](#)

**Annexure I: Instrument details**

| Transaction Name                   | Instrument       | Date of Issuance / Sanction | Coupon Rate | Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|------------------------------------|------------------|-----------------------------|-------------|----------------|--------------------------|----------------|
| Vistaar BOB DA Pool Dec 2019 (PCG) | Assignee payouts | December 2019               | 10.00%      | November 2028  | 9.19                     | [ICRA]AA+(SO)  |

*\*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](mailto:abhishek.dafria@icraindia.com)

**Sachin Joglekar**

+91 22 6114 3470

[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

**Gaurav Mashalkar**

+91 22 6114 3431

[gaurav.mashalkar@icraindia.com](mailto:gaurav.mashalkar@icraindia.com)

**Priya Gounder**

+91 22 6114 3454

[priya.gounder@icraindia.com](mailto:priya.gounder@icraindia.com)

**Vishal Oza**

+91 22 6114 3432

[vishal.oza@icraindia.com](mailto:vishal.oza@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6169 3304

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

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

Tel: +91 11 23357940-45



### Branches



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