

Shivam – II (Revised)

Originator: VFS Capital Limited

September 07, 2023

Instrument [#]	Amount (₹ crore)	Structure	Tenure* (months)	Rating ¹	Credit Enhancement [§] (₹ crore)	
					Over Collateral	Cash Collateral
Series A1 PTCs	19.12	Par (TI-UP)	20	Provisional CARE A (SO)	3.37	1.12

Details of instruments/facilities in Annexure-1.

[#]The pass-through certificates (PTCs) are rated based on the timely payment of interest and payment of principal by the final legal maturity.

^{*}Tenure/door-to-door maturity may change due to prepayments or changes in interest rates, if any.

[§]Excess interest spread (EIS) will flow back to the originator on a monthly basis as per the waterfall mechanism.

Rating in the absence of the pending steps/documents

No rating can be assigned

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has assigned a rating of 'Provisional CARE A (SO)' (pronounced as 'Single A [Structured Obligation]') to the Series A1 PTCs, proposed to be issued by Shivam – II, backed by microfinance loans receivables originated by VFS Capital Limited ('the originator' or 'VFSCL').

The rating is based on the credit quality of the underlying loans, the support in the form of credit enhancement (CE), the credit underwriting and servicing capability of the originator, the well-defined payment mechanism, and the robust legal structure of the transaction.

The final rating will be assigned after copies of the following documents, duly executed in accordance with the structure and to the satisfaction of CARE Ratings, are furnished by the originator:

- Assignment agreement
- Trust deed
- Power of attorney
- A legal opinion from an independent legal counsel
- Due diligence audit report
- Any other documents executed for the transaction.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Delinquencies (90+ DPD as a percentage of the initial principal outstanding [POS]) of <2% coupled with a sustained high collection efficiency (cumulative collection efficiency of >98%).
- Build-up of cash collateral (CC) of more than 2x the initial proposed (as a percentage of the balance POS).

Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Delinquencies (90+ DPD as a percentage of the initial POS) of >5% coupled with a sustained lower collection efficiency (cumulative collection efficiency of <90%).
- Sharp deterioration in the credit profile of the originator.
- Non-adherence to key transaction terms envisaged at the time of the rating.

Analytical approach

[CARE Ratings' methodology for asset/mortgage-backed securitisation](#)

Detailed description of the key rating drivers

The transaction is structured at par and the Series A1 PTCs are rated for the timely payment of interest and payment of principal by the final legal maturity.

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd's publications.

The credit enhancement (CE) will comprise CC of 5.00%, subordinated over collateral (OC) of 14.99%, and subordination of excess interest spread (EIS) of 11.89% of the pool POS in the structure. The CC will be in the form of fixed deposits (FDs) with a lien marked in favour of the trust, as per CARE Ratings' criteria. The support of both, OC and EIS is subject to realisation. The EIS is also subject to compression on account of prepayments in the pool.

The assigned pool consists of microfinance loan contracts, aggregating to a POS of ₹22.49 crore as on the cut-off date. The top three states account for 69.43% of the pool. All the contracts are current on payment. The pool has weighted an average seasoning of around 6.02 months with amortisation of around 25.96%.

Key strengths:

- Robustness of the transaction structure and a well-defined payment mechanism.
- CE comprising CC, subordinated OC, and EIS.
- No overdue contracts as on the pool cut-off date; all contracts are ever current as on the pool cut-off date.
- The underwriting policies and collection capabilities of VFSL.
- High weighted average seasoning (based on instalments paid) of around 6.02 months with amortisation of around 25.96%.

Key weaknesses:

- Concentrated in terms of branch, with the top 5 branches accounting for 17.35% of the pool.
- Weak borrower profile, as this segment is susceptible to socio-political disruptions and other external shocks.

Liquidity: Adequate

The inherent liquidity in the structure is adequate. The interest payouts for Series A1 PTCs are promised on a monthly basis, while the principal of Series A1 PTCs is promised to be paid by the final legal maturity. In case of any delinquency, the payouts are expected to be supported by CE consisting of CC, principal subordination in the form of OC, and EIS.

Key rating assumptions

CARE Ratings has analysed the transaction to assess whether the CE is sufficient to cover the shortfalls. Since the transaction is sensitive to the credit quality of the underlying pool, CARE Ratings has analysed the performance of the static pools provided by the originator and the overall portfolio performance of the originator. Considering the borrower profile, nature of the loan, pool characteristics and portfolio performance, CARE Ratings has taken the average shortfall at 10.00-12.00% of the POS. The base case shortfalls were stressed along with other key factors, such as the timing of shortfalls, the recovery assumptions, and the time to recovery.

Applicable criteria

[Policy on Default Recognition](#)

[Assignment of Provisional rating](#)

[CARE Ratings' methodology for asset/mortgage-backed securitisation](#)

Validity of the Provisional rating

The Provisional rating will be converted into a final rating after the receipt of the transaction documents are duly executed within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings' Policy on the Assignment of Provisional Ratings.

Risks associated with the Provisional nature of the credit rating

When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings, the final rating is assigned by CARE Ratings. In the absence of receipt of documents or in case such documents deviate significantly from the transaction structure considered by CARE Ratings, the Provisional rating will be reviewed or withdrawn in line with the Policy on Assignment of Provisional Ratings and it is possible that no rating may be assigned.

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Securitisation

VFSC (erstwhile Village Financial Services Private Limited [VFS]), incorporated in 1994, is a non-deposit taking non-banking financial company-microfinance institution (NBFC-MFI) registered with the Reserve Bank of India (RBI). It provides loans to individual female members predominantly from rural areas in a joint liability group (JLG), with each group consisting of five members. VFSC is using digital mode for disbursement. Notably, 100% of the disbursement happens through the digital mode.

Over 80% of the shareholding is held by the promoters and 7% is held by IDFC First Bank Limited as on June 30, 2023. The current promoters of VFSC, Ajit Kumar Maity, Chairman, and his son, Kuldip Maity, Managing Director & CEO, have over two decades of experience in micro lending activities.

Key financial indicators – VFSC

Particulars	FY22 (A)	FY23 (A)	Q1FY24 (P)
Total income (₹ crore)	137	169	42
PAT (₹ crore)	1	14	2
Total assets (₹ crore)	893	888	NA
Net NPA (%)	2.33	0.30	0.00
ROTA (%)	0.13	1.57	1.15

A: Audited; P: Provisional; NA: Not available.

Note: The above results are the latest financial results available.

Status of non-cooperation with the previous CRA: Not applicable

Any other information: Nil

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Pass-through certificates	-	-	-	19.12	Provisional CARE A (SO)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1.	Pass-through certificates	LT	19.12	Provisional CARE A (SO)	-	-	-	-

LT*- Long term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of Instrument	Complexity Level
1.	Pass-through certificates	Highly complex

Annexure-5: Lender details

Not applicable

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

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