CRISIL Ratings

DRAFT CREDIT RATING REPORT
VISTA SME 06 2023

Ratings on pass-through certificates (PTCs) of Keertana Finserv Private Limited issued by Vista SME 06 2023

Instrument Details	Yield Terms	Pool principal (Rs Cr)	Rated amount (Rs Cr)	Tenure (Months)	Credit Collateral (Rs Cr)	Ratings[&]
Series A1 PTCs	Fixed	22.38	20.00	20	1.12*	Provisional CRISIL A- (SO) [@]

*Additional credit support includes Rs. 5.77 crore in form of scheduled cash flow subordination (assuming zero prepayments) – overcollateralization of Rs. 2.38 crore (10.7% of pool principal)

[&]Series A1 PTC holders are entitled to receive timely interest on a monthly basis, while the principal payment is promised on an ultimate basis.

[@] A prefix of 'Provisional' indicates that the rating centrally factors in the strength of specific structures and is contingent upon occurrence of certain steps or execution of certain documents by the issuer, as applicable, without which the rating would either have been different or not assigned ab initio. This is in compliance with a May 6, 2015 directive 'Standardizing the term, rating symbol, and manner of disclosure with regards to conditional/ provisional/ in-principle ratings assigned by credit rating agencies' and April 27, 2021 circular 'Standardizing and Strengthening Policies on Provisional Rating by Credit Rating Agencies (CRAs) for Debt Instruments' issued by Securities and Exchange Board of India (SEBI).

Rating Drivers

Supporting Factors

- Credit support available in the structure
  - Credit collateral of Rs 1.12 crore (5.0% of the pool principal) provides credit support to the PTCs. The PTCs also benefit from internal credit support through scheduled subordination (assuming zero prepayment) aggregating to Rs 5.77 crore (25.8% of pool principal).
- Seasoning of contracts in the pool
  - All the contracts in the underlying loan pool are current as of the cut-off date (June 19, 2023). Additionally, none of the contracts in the pool have been delinquent since origination

Constraining Factors

- Geographic concentration
  - The pool is very concentrated geographically, with loans mostly from the state of Andhra Pradesh (85.8% of pool principal). Top 3 districts also account for 47.1% of pool principal
- Susceptibility to macroeconomic headwinds:
  - Borrower cash flows in the SME segment are vulnerable to adverse impacts on account of rising energy and input costs and a moderation in demand on account of an increased inflation and interest rate scenario. These macroeconomic headwinds may hamper the pool's collection performance.

Liquidity: Strong

Liquidity is strong given that the credit enhancement available in the structure is sufficient to cover losses exceeding 1.5 times the currently estimated base shortfalls

Rating Sensitivity Factors

Upward factor:

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- Credit enhancement (based on both internal and external credit enhancements) available in the structure exceeding 1.90 times the estimated base case shortfalls on the residual cash flows of the pool.

Downward factor:

- Credit enhancement (based on both internal and external credit enhancements) falling below 1.50 times the estimated base case shortfalls.
- A sharp downgrade in the rating of the servicer/originator.
- Non-adherence to the key transaction terms envisaged at the time of the rating.

These factors have been considered by CRISIL Ratings in its analysis.

Transaction Summary

Parameter	Description
Originator & Servicer	Keertana Finserv Private Limited (Keertana)
Nature of receivables	Unsecured MSME loan receivables
Issuer	Vista SME 06 2023
Trustee	MITCON Credentia Trusteeship Services Limited (Mitcon)
Number of contracts	2,481
Pool principal outstanding (as on June 19, 2023)	Rs 22.38 crore
Pool cash flows receivable (from June 20, 2023)	Rs 27.81 crore
Structure	Par with EIS flowback
Credit Enhancement	- Credit collateral aggregating to Rs 1.12 crore (5.0% of the pool principal) in the form of a fixed deposit. - Scheduled subordination (assuming zero prepayment) aggregating to Rs 5.77 crore (25.8% of pool principal)
Clean-up call option	Available after 90% pool amortization
Payment dates	As per transaction documents, starting August 17, 2023 and subsequently 17th day of every month
Investor Yield	Series A1 PTCs – 13.0%
First payout month	August 2023
Last payout month	March 2025

Counterparty Details

The table below lists parties to the transaction, the capacities in which they are involved, and the impact of their non-performance on the ratings on the PTCs.

Capacity	Counterparty Name	Counterparty Rating	Effect on credit ratings in case of non-performance
Originator	Keertana	Rated 'CRISIL BBB/Stable'	No effect.

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Capacity	Counterparty Name	Counterparty Rating	Effect on credit ratings in case of non-performance
Servicer	Keertana	Rated 'CRISIL BBB/Stable'	Significant effect, because of change in servicing quality and replacement cost of servicer. However, currently CRISIL Ratings does not envisage the need for replacement. The Trust or investor has right to change the servicer with an intimation to CRISIL Ratings.
Collection and Payout Account Bank	TBD	-	Negligible effect. Account bank can be changed without impacting the rating.
Credit collateral in the form of Fixed Deposit	TBD	-	Negligible effect. Bank with whom the fixed deposit is maintained can be changed without impacting the rating.
Trustee	Mitcon	-	Negligible effect. Can be replaced at minimal cost.

Issue Structure

The transaction has a 'par' structure wherein the seller will assign the loan receivables to 'Vista SME 06 2023' in exchange for a purchase consideration, which is equal to 89.3% of the pool principal. The trust will issue Series A1 PTCs for 89.3% of the initial pool principal. 10.7% of the initial pool principal will act as overcollateralization. Series A1 PTC holders are entitled to receive timely interest on a monthly basis, while the principal payment is promised on an ultimate basis. Mitcon will be appointed as trustee to monitor the overall transaction on behalf of the PTC investors. Keertana will continue to service the pool contracts as the servicing agent.

The credit collateral (amounting to 5.0% of pool principal) along with scheduled cashflow subordination (assuming zero prepayments) amounting to 25.8% of pool principal, provide cover over the expected peak collection shortfalls in the pool that is commensurate with the rating assigned to Series A1(a).

The PTC investors' recourse is limited to the extent of the underlying security of the pool receivables, and credit collateral. While CRISIL Ratings expects that the shortfalls in the pool will not exceed the overall credit liquidity

enhancement, in the unlikely event of this happening, the shortfall will be borne by the PTC investors. *(Refer Box - Key Rating Assumptions and Sensitivity).*

Credit Enhancement

The forms of credit enhancement available to support the PTC payouts are depicted in the table below:

Form of Support	Series A1 PTCs (Rs crore)
Scheduled subordination	5.77
Credit collateral	1.12
Total support	6.89

The credit collateral will be available to meet shortfalls in the securitised pools as per the waterfall mechanism. The/ credit collateral may be provided in the form of cash collateral to be maintained with banks/financial institutions acceptable to CRISIL Ratings. Cash collateral may be maintained in the form of fixed deposits with any bank that meets CRISIL Ratings' criteria (For details please refer to the CRISIL's rating methodology for ABS transactions). The collection and payout account shall be operated only by the trustee, and shall be used to make monthly payouts to investors as per the waterfall mechanism.

Key Rating Assumptions and Sensitivity

To assess the base case shortfalls for the transaction, CRISIL Ratings has analysed Keertana's portfolio information for unsecured MSME loans from March 2022 to April 2023, along with collection efficiency on the portfolio over the last year.

CRISIL Ratings has estimated base case shortfalls in the pool at 11.0%-13.0% of cash flows. Additionally, stresses on account of economic, political and concentration related factors have been applied. CRISIL Ratings has also assumed a monthly prepayment of 0.5%-1.5% in its credit enhancement calculation. CRISIL Ratings has adequately factored in the risks arising on account of counterparties (*refer to Counterparty Details*). CRISIL Ratings has run sensitivities based on various shortfall curves (front-ended, back-ended and normal) and has adequately factored the same in its analysis.

CRISIL Ratings has analysed the cover available to PTC investors at various levels of shortfall in the pool. A summary analysis of the cover available over peak shortfalls under various scenarios is presented in the table below:

Base Shortfall[1]	Credit Cover (Times)
	Series A1 PTCs
11.0%	1.89
12.0%	1.73
13.0%	1.60

Risk factors and Mitigants

The risks in this transaction are as follows:

[1] Additional stresses have been applied on account of economic, political and concentration related factors

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Credit risk: PTC investors are taking a direct exposure on the repayment ability of the underlying borrowers. Hence, payment on the PTCs will depend on the credit quality of pool borrowers. The credit collateral, along with the available subordination in the transaction provides cover, which is commensurate with the credit rating to the PTCs

Prepayment risk: Cashflow subordination is a form of credit enhancement available to the PTC investors. Prepayments by the borrowers will result in reduction of subordination, and hence, reduction in credit support available to the PTC investors. CRISIL Ratings has evaluated the credit collateral requirement after adequately stressing the level of prepayments in the pool. Prepayments will also lead to receipt of principal ahead of scheduled payouts. The consequent reinvestment risk will be borne by the PTC investors.

Commingling risk: This risk arises on account of time lag between collection of amounts from the borrowers, and deposit into the collection and payout account, during which Keertana (in its role as the servicer) continues to hold the pool collections. CRISIL Ratings has factored in the risk arising on account of commingling of cash flows.

Legal risk: In any securitisation transaction, it is essential that the transfer of receivables is a "valid sale", i.e. the seller does not retain any control over receivables, or any claim to the receivables that could override the claim of PTC investors. Further, the transfer of receivables should not, in any way, vitiate the terms of the underlying loan documents. This risk is mitigated through an independent legal opinion confirming valid sale (refer to section "Legal Opinion" for more details) to be provided to CRISIL Ratings.

Tax Risk: The investor's payouts may be reduced on account of tax, levies on the income distributed by securitisation trust to its investors, depending on the status/category of the investor, which may result in a reduction in the respective investor's net securitisation income, if any. However, CRISIL Ratings will not recognize such reduction as an event of default since this is in the nature of a statutory levy.

Summary table of Risk factors and Mitigants

Key Risks	Mitigants
Credit Risk	The credit collateral amounting to 5.0% of pool principal along with other forms of credit support available in the structure is commensurate with the ratings assigned to the PTCs.
Prepayment Risk	Reinvestment risk continues to be borne by the PTC investors.
Commingling Risk	Based on CRISIL Ratings' short-term view of the servicer, the risk arising out of commingling of cash flows has been factored into the credit enhancement.
Legal Risk	Independent legal opinion addressing legal issues (to be furnished by Keertana).

Key features of the transaction

Clean-up Call Option

The originator has an option to repurchase fully performing contracts if the outstanding pool principal becomes less than 10% of the initial pool principal as on the pool cut-off date (June 19, 2023). This option can be exercised only if the credit collateral available at the time of exercise is larger than the principal balance of non-performing contracts.

The exercise of the clean-up call option will result in prepayments of the principal outstanding on the PTCs and the consequent reinvestment risk is borne by the PTC investors.

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Pool Characteristics

The salient features of the pool as on the cut-off date (June 19, 2023) based on the loan-level information submitted to CRISIL Ratings are as follows:

- The contracts in the pool pertain to microfinance loans originated by Keertana
- All the contracts in the pool are current as of cut-off date.
- The minimum seasoning of contracts is 4 months
- The contracts in the pool have an original tenure not exceeding 24 months

Furthermore, the originator has also represented the following:

- None of the loans in the pool has been restructured or rescheduled.
- The loans are not hypothecated to any lender and do not have any encumbrances on the date of securitisation.

Key parameters of the pool are as follows

Parameter	Values
Number of loans	2,481
Weighted average net seasoning[2] [3]	6.2
Weighted average interest rate	29.1%
Weighted average original tenure	23.9 months
Average original ticket size	Rs 1,14,300

Geographic Concentration

The pool is highly concentrated with most contracts from states of Andhra Pradesh and Karnataka; top 3 districts account 47.1% of pool principal

State	Principal Outstanding
Andhra Pradesh	85.8%
Karnataka	9.0%
Others	5.1%
Total	**100.0%**

District	Principal Outstanding
Chittoor	19.1%
East Godavari	14.7%
Kakinada	13.3%
Sri Sathya Sai	9.1%
Anakapalle	5.1%
Tumkur	4.9%
Others	33.8%
Total	**100.0%**

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[2] Net Seasoning = No. of instalments paid
[3] Weights being the principal outstanding on the contracts

Seasoning

The pool contracts have a weighted average net seasoning of 6.2 (EMIs paid), during which 21.1% of the disbursed principal has amortised.

Seasoning	Principal Outstanding
4	18.5%
5	24.5%
6	17.6%
7	16.6%
8	12.3%
9	5.7%
10	4.0%
11	0.8%
Total	**100.0%**

Original Tenure

The pool contracts have a weighted average original tenure of 23.9 months.

Tenure (Months)	Principal Outstanding
18	2.4%
24	97.6%
Total	**100.0%**

Ticket Size

The average ticket size for pool contracts was Rs 114,300.

Amount Financed (Rs '000s)	Principal Outstanding
50k-100k	15.4%
100k-150k	55.5%
150k-200k	23.1%
>200k	6.0%
Total	**100.0%**

Interest Rate

The weighted average interest rate for pool contracts is 29.1%.

Interest rate (%)	Principal Outstanding
29	85.9%
29.5	14.1%
Total	**100.0%**

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Payment Track Record

All the contracts in the pool are current on repayment as of cut-off date (June 19, 2023).

Originator Profile

Keertana Finserv Private Limited (formerly known as Rajshree Tracom Private Limited) ("Keertana") was incorporated as a private limited company in 1996 in Calcutta. The company remained a closely held company for twenty years till it was acquired and renamed by Ms. Padmaja Reddy with her friends and family in March 2022. The company acquired gold loans business from Spandana Mutual Benefit Trust (SMBT) and MSME business from Spandana Rural and Urban development Organisation (SRUDO).

The company largely focuses on gold loans and MSME loans targeting the low income and middle-income households in rural areas. As of July 31, 2022, company has 144 branches spread across 19 districts. 99 Branches are active and the remaining 45 Branches have branch furnishing work in progress. The company has an outstanding AUM of Rs 292 crore with gold loans accounting for 92% of the portfolio.

Key Financial Indicators

Parameters	Unit	Q1 2023*	Mar-2022	Mar-2021	Mar-2020
Total managed assets	Rs crore	373.2	2.8	2.7	3.2
Total income	Rs crore	13.5	0.3	0.3	0.4
PAT	Rs crore	2.5	0.2	0.06	0.11
Return on managed assets	%	3.6	6.9	2.0	3.9
GNPA (90+ dpd)	%	0.01	0	0	0
Adjusted gearing (including off-book)	Times	2.2	-	-	-

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Credit and Collection processes of originator

Sourcing and underwriting

Sourcing is done by the branch managers at the branch level, who are primarily engaged in the bringing in the sales and performing preliminary credit appraisals such as pre-sanction inspections, collecting relevant documentations and proofs of the prospective borrowers and their source of income and residential property to the central office for underwriting. The branch manager is supported by 3-5 Relationship Officers and for older and more seasoned branches, operation executives are engaged, who support the branch manager. The structure of a typical branch is 1+4. The bureau check, post entry in the loan management system happens seamlessly. The LMS captures – household income through number of people working in the family, nature of work, expected income, number of farm animals/ poultry owned, additional pension/ rental income (if any). The system also checks and caps income based on typical income expected from the line of work, including whether it is regular/seasonal work (number of days of work in a week & months in a year). Similar capping is done on other sources of income. This prevents the loan officer from overstating the family income. Residual income will be based on conservatively calculated household income and reduced for fixed expenses like school fees, heath expenses, etc. Additionally, this residual amount is discounted by 30%, which is then used to determine the ticket size for the loans.

Collections

All businesses have separate teams for sourcing/ collections. Branches are also separate, except for Gold and MSME loan which share premises in certain location. For unsecured business loans, e-mandates and NACH are mandatory. ~92% success rate has been observed in NACH; rest of the collections are made by the relationship officers. So far, 100% collection efficiencies have been maintained by Keertana Finserv for MSME loans.

For branch staff, good collection efficiency is a pre-condition for incentives; post achieving this, incentives are based on the sourcing targets

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Portfolio performance of originator[4]

The overall portfolio performance is depicted in Chart 1 below.

- Portfolio has grown gradually since the acquisition, i.e. from Apr-22; reaching AUM of Rs 72.89 crore in May 2023, with a monthly disbursement rate of Rs. 8-10 crores.
- The monthly collection efficiency has been 100.0%, hence there have been no delinquencies in this portfolio thus far

CHART 1 – DISBURSEMENT AND AUM MOVEMENT

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[4] The data gaps in the charts are for RBI moratorium period and Covid 2.0 period.

Track record of Keertana as originator and servicer

This is the first PTC transaction originated by Keertana, rated by CRISIL Ratings.

Payment and Waterfall Mechanism

On every Payin Date, the Trustee will determine the adequacy of the funds lying in the Collection and Payout Account to make the Investor Payouts to the Investors and other payments set out here below on every Payout Date. In the event that the funds in the Collection and Payout Account are inadequate or insufficient to make certain Investor Payouts as indicated below, the Trustee will utilise External Credit Enhancement as indicated below to meet such shortfall. On each Payout Date, the funds lying in the Collection and Payout Account, along with any amounts withdrawn by the Trustee from External Credit Enhancement, the clean-up purchase consideration (if any), and any amounts recovered pursuant to legal proceedings [(including for the enforcement of any security interest in respect of the secured assets)], will be utilised in the following order of priority::

i. Payment of all statutory and regulatory dues;
ii. Payment of any fees and expenses incurred by the Trustee or any fees payable to service providers
iii. Payment of overdue interest payments due to Series A1 PTCs;
iv. Payment of scheduled interest payments to the Series A1 PTCs;
v. Payment of expected Series A1 Principal including any unpaid expected Series A1 Principal pertaining to earlier months, which is payable to the Series A1 PTC holder;
vi. Any prepayments would be utilized for payment of Series A1 Principal;
vii. Reinstatement of the cash collateral drawn in the earlier period, if any:
viii. Payment to the Residual Beneficiary, provided that the Initial overcollateralization is maintained.

Following payments of the Series A1 PTCs in full:

ix. Payment of all statutory and regulatory dues;
x. Payment of any fees and expenses incurred by the Trustee or any fees payable to service providers;
xi. Payment to the Residual Beneficiary

Transaction Documents

The list of documents mentioned in the Compliance and Monitoring section below highlight the transaction documents that form a part of the securitisation transaction and are critical for conversion of a provisional rating into a final rating.

Legal Opinion

CRISIL Ratings bases its analysis of the legal aspects on the transaction on professional legal opinion from an external legal counsel. Keertana, in its capacity as the originator, will provide a legal opinion from an external legal counsel on the following:

- That the assignment of receivables is valid in terms of the underlying loan documents;
- That the assignment of receivables constitutes a valid sale as per prevailing legislation and regulations, including applicable RBI guidelines;
- That all the rights, title, interest, and benefits in the cash flows being assigned, including proportionate interest in the underlying security, if any, have been transferred to the SPV; and the cash flows are bankruptcy remote from the seller;
- All the contractual obligations supporting the transaction, if provided in the form of cash, are bankruptcy remote from the provider. All the contractual obligations supporting the transaction, if provided in the form of corporate guarantee/undertaking, are valid, unconditional and irrevocable;
- All transaction documents have been duly executed in accordance with the prevailing stamp duty and registration laws.

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Compliance and Monitoring

Additional disclosures for Provisional ratings:
The provisional rating is contingent upon execution and receipt of the following documents :

- Trust Deed
- Power of Attorney
- Information memorandum
- Legal opinion
- Trustee letter
- Representations and Warranties letter
- Assignment Agreement
- Accounts Agreement
- Servicing Agreement

Additional documents, if any, executed for a transaction should also be provided along with the above said documents.

The provisional rating shall be converted into a final rating after receipt of transaction documents duly executed within 90 days from the date of issuance of the instrument. A rating rationale/report indicating the conversion of the 'provisional' rating to 'final' rating post the receipt of all the final required legal documents will be published on the CRISIL Ratings website. Please click on link below for detailed information on CRISIL Ratings's policy on provisional rating: Revision in CRISIL policy for assigning 'provisional' rating.

The final rating assigned post conversion shall be consistent with the available documents. In case of non-receipt of the duly executed transaction documents within the above-mentioned timelines, the rating committee of CRISIL Ratings may grant an extension of up to another 90 days in line with its policy on provisional ratings.

Rating that would have been assigned in absence of the pending steps/ documentation:
In the absence of documentation considered while assigning provisional rating as mentioned above, CRISIL Ratings would not have assigned any rating.

Risks associated with provisional nature of credit rating:
A prefix of 'Provisional' to the rating symbol indicates that the rating is contingent upon occurrence of certain steps or execution of certain documents by the issuer, as applicable. In case the documents received and/or completion of steps deviates significantly from the expectations, CRISIL Ratings may take an appropriate action including placing the rating on watch or a rating/outlook change, depending on status of progress on a case-to-case basis. In the absence of the pending steps / documentation, the rating on the instrument would not have been assigned ab initio.

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Investors can refer to https://www.crisil.com/complexity-levels for more details and a comprehensive list of CRISIL Ratings Complexity Levels or call the Customer Service Helpdesk Toll free number: 1800 267 1301.

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