Date: 14th February, 2022

To
BSE Limited,
PJ Towers, Dalal Street,
Mumbai-400 001.
Scrip Code: 958344

Dear Sir/Madam,

Sub: Revision in Limits of Credit Ratings
Ref: Regulation 51(2) of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015

Pursuant to the provisions of Regulation 51 (2) of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 as amended, this is to inform you that the credit rating agency, ICRA Limited ("ICRA") has increased our Bank Loan Rating limits and reaffirmed current ratings pertaining to various debt instruments.

The Rating Rationale as issued by ICRA has been enclosed.

You are requested to kindly take the above information on record.

Thanking you,
Yours faithfully
For Vaya Finserv Private Limited
DEEPIKA SINGH
Digitally signed by DEEPIKA SINGH
Date: 2022.02.14 18:34:14 +05'30'
Deepika Singh
Company Secretary
Encl: as above

February 14, 2022

Vaya Finserv Private Limited: Ratings reaffirmed/assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities	500.00	800.00	[ICRA]BBB (Stable); assigned/reaffirmed
Non-convertible debentures	270.00	270.00	[ICRA]BBB (Stable); reaffirmed
Commercial paper programme	50.00	50.00	[ICRA]A3+; reaffirmed
Total	**820.00**	**1,120.00**	

**Instrument details are provided in Annexure-1*

In addition to the above instruments, ICRA has a rating outstanding on VFPL's pooled loan issuance (PLI) programme and pass-through certificates; refer to these links for details: Link 1, Link 2

Rationale

The ratings factor in the adequate capitalisation profile of Vaya Finserv Private Limited (VFPL) and the improvement in the diversity of its funding profile. The company is adequately capitalised with a capital adequacy ratio of 29.1% (Tier I: 28.5%) and a low adjusted gearing[1] of 3.3 times as on December 31, 2021 (provisional). The funding profile and financial flexibility have also improved aided by sanctions availed from banks under the Credit Guarantee Scheme (CGS) for microfinance institutions (MFIs). The borrowing profile comprised term loans from banks (60%), debt securities (26%), term loans from non-banking financial companies (NBFCs)/ financial institutions (FIs) (9%) and securitisation/assignment (5%) as on December 31, 2021. The ratings continue to factor in the company's adequate loan origination, collection and monitoring systems, supported by an adequate management information system (MIS) and information technology (IT) system. ICRA, further notes the gradual improvement in the collection efficiency (CE) from June 2021 after a decline in Q1 FY2022 because of the second wave of the Covid-19 pandemic.

The ratings are, however, constrained by the company's moderate scale and geographically concentrated operations. ICRA notes that VFPL reported a decline in its assets under management (AUM) in 9M FY2022 as it has discontinued its business correspondent (BC) operations. However, its on-book portfolio has grown at a healthy pace at the same time. Further, the company's overall asset quality indicators have weakened with gross non-performing assets (GNPAs) of 4.7% as on December 31, 2021 (provisional), compared to 2.8% as on March 31, 2021. A deterioration in the asset quality indicators was witnessed in 9M FY2022 as the livelihood of borrowers was impacted by movement restrictions pursuant to the second wave. Consequently, its credit cost has been elevated, which keeps the profitability subdued. The company reported a net profit of Rs. 7 crore in 9M FY2022 (provisional), translating into an annualised return of 0.7% on average managed assets[2] (AMA) and 3.2% on average net worth.

Nevertheless, ICRA draws comfort from the fact that the company does not have any restructured portfolio and hence the repayment behaviour of stressed borrowers is reflected in current delinquencies. However, the persisting challenging operating environment will keep the portfolio vulnerability high in the near term and VFPL's ability to arrest further slippages and recover from overdue accounts will remain a monitorable. On an overall basis, credit cost is expected to remain elevated

---

[1]Adjusted gearing = (on-book borrowings incl. accrued interest + securitised/assigned portfolio)/ (net worth less cash collateral or fixed deposits for BC activities)

[2] Total managed assets = (Total assets + direct assignment portfolio + business correspondent portfolio)

in FY2022, which would keep the profitability moderate during the year, though it is expected to witness an improvement in FY2023. The ratings continue to factor in the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that VFPL will continue to benefit from its adequate loan origination and management systems and its adequate capitalisation and liquidity profile.

Key rating drivers and their description

Credit strengths

Adequate capitalisation profile – The company's reported capital adequacy ratio of 29.1%, as on December 31, 2021 (provisional) (34.5% as on March 31, 2021; 24.6% as on March 31, 2020), was well above the regulatory requirement of 15% while the gearing (on-book) was low at 3.3 times. The adjusted gearing was also low at 3.3 times as on December 31, 2021 (provisional) (2.6 times as on March 31, 2021; 3.6 times as on March 31, 2020). The Promoters, Vaya Trusts infused Rs. 100 crore of equity capital in December 2020, which helped VFPL scale up its own portfolio while maintaining a prudent capitalisation profile. At present, VFPL is adequately capitalised with a net worth (provisional) of Rs. 305 crore as on December 31, 2021 (provisional) (29% of the AUM).

Improved diversity in funding profile – VFPL has been able to raise funds for scaling up its own portfolio and had relationships with 29 lenders as on December 31, 2021. It raised Rs. 675 crore of debt from 15 different lenders/investors, including banks and foreign portfolio investors. The borrowing profile comprised term loans from banks (60%), debt securities (26%), term loans from NBFCs/FIs (9%) and securitisation/assignment (5%) as on December 31, 2021. The company has been able to increase its share of term loans from banks to 60% of the total borrowings, as on December 31, 2021, from 32% as on March 31, 2021, supported by sanctions under the CGS for MFIs. Consequently, the cost of average interest-bearing funds also reduced to 10.5% in 9M FY2022 from 12.1% in FY2021.

Adequate loan origination and management systems – VFPL has an adequate IT infrastructure with the real-time tracking of the field-level data related to the borrowers, districts and branches. The real-time credit bureau checks enable VFPL to reduce its turnaround time. Disbursements are through the cashless mode. The company has signed the code of responsible lending launched by the self-regulatory organisations of the microfinance industry. The data management is commensurate with the current scale of operations with adequate capacity to allow the further scale-up of the operations.

Credit challenges

Moderate scale and geographically concentrated operations – As on December 31, 2021, VFPL's operations were spread across 92 districts in 7 states while managing a portfolio of Rs. 1,047 crore (Rs. 1,139 crore as on March 31, 2021). The 11% annualised decline in the portfolio was due to the disruptions caused by the second wave of the pandemic and the discontinuation of the BC arrangements with Yes Bank Limited and RBL Bank Limited. Nevertheless, the company continues to scale up its own portfolio, which increased to Rs. 989 crore as on December 31, 2021, from Rs. 730 crore as on March 31, 2021 (annualised growth of 47%).

With the discontinuation of the BC agreements and the consequent transfer of the BC portfolio, the portfolio concentration increased with the top 3 states accounting for nearly 84% of the portfolio as on December 31, 2021 (80% as on December 31, 2020). The top 10 and top 20 districts comprised 30% and 52%, respectively, of the AUM (25% and 43%, respectively, as on December 31, 2020) and represented 105% and 180%, respectively, of the net worth as on December 31, 2021 (89% and 152%, respectively, as on December 31, 2020). Going forward, the company's ability to further diversify its operations geographically while increasing its scale of operations and maintaining the asset quality will remain important from a credit perspective.

Deterioration in asset quality amid the pandemic – The company's overall asset quality indicators have weakened with GNPAs of 4.7% as on December 31, 2021 (provisional), compared to 2.8% as on March 31, 2021. A deterioration in the asset quality indicators was witnessed in 9M FY2022 as the livelihood of borrowers was impacted by movement restrictions pursuant to the second wave of the pandemic. Nevertheless, the net NPAs were lower at 2.2% as on December 31, 2021. Also, the collection efficiency has been improving with the company reporting a collection efficiency (including overdue collections) of 94.1% in December 2021 compared to the low of 80.5% in May 2021.

The third wave of the pandemic commenced by the end of December 2021 in India. Moreover, daily fresh cases are rising at a much faster pace in the ongoing third wave compared to the second wave. This poses significant downside risk and any major disruptions in field activities, or the cash flows of the borrowers may once again challenge the recovery process.

Subdued profitability – The company reported a net profit of Rs. 7 crore in 9M FY2022 (provisional), translating into an annualised return of 0.7% on AMA and 3.2% on average net worth. The net interest margins declined in 9M FY2022, despite the decline in the cost of average interest-bearing funds, owing to the discontinuation of BC activities, write-offs in the loan portfolio and increase in the gearing level. The operating efficiency also reduced with the scale of operations declining due to the transfer of the portfolio to the BC partner.

The overall profitability remains subdued due to elevated credit costs. The company reported credit costs of 2.2% of AMA in 9M FY2022 (3.2% in FY2021) driven by the deterioration in the asset quality indicators and the consequent increase in the provisioning requirement. With continued uncertainty regarding the asset quality and VFPL's ability to recover from overdue accounts, the credit cost is expected to remain elevated in FY2022, though it is expected to witness an improvement in FY2023.

Ability to manage political, communal, and other risks, given the marginal borrower profile – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Further, political, and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political, climatic, and operational risks, which could negatively impact VFPL's operations. The company's ability to onboard borrowers with a good credit history, recruit and retain employees and improve the geographical diversity of its operations would be key for managing high growth rates.

Liquidity position: Adequate

As on December 31, 2021, the company had free cash and bank balance and liquid investments of Rs. 283 crore and scheduled inflows from advances of Rs. 413 crore against scheduled debt repayments of Rs. 317 crore during January 01, 2022, to June 30, 2022. Factoring in the expected collections from advances, the liquidity profile is adequate to meet the debt obligations in a timely manner. As per the asset-liability management (ALM) profile as on December 31, 2021, VFPL had no cumulative mismatches for a period of at least one year. Additionally, it had Rs. 231 crore of sanctioned but unutilised funding lines as on December 31, 2021, which support its liquidity profile.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the ratings if there is a sustained improvement in VFPL's profitability indicators with a return on managed assets (RoMA) of more than 2.5%. Further improvement in the scale of operations and geographical diversification, while maintaining the asset quality and prudent capitalisation with an adjusted gearing of less than 5 times on a sustained basis, could positively impact the ratings.

Negative factors – Pressure on the company's ratings could arise if there is a deterioration in the asset quality or operational efficiency, which could materially affect its profitability on a sustained basis. A deterioration in the capitalisation profile with the adjusted gearing exceeding 6 times or a weakening in the liquidity could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Rating Methodology for Non-Banking Finance Companies]
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Vaya Finserv Private Limited (VFPL), incorporated in March 2014, is an NBFC-MFI with its registered office in Hyderabad. The company provides microloans under the joint liability group (JLG) model along with credit-linked insurance. VFPL was operating in 7 states through a network of 268 branches spread across 92 districts, catering to more than 4.5 lakh borrowers with a managed loan portfolio of Rs. 1,047 crore as on December 31, 2021.

Key financial indicators (audited)

Vaya Finserv Private Limited	FY2020	FY2021	9M FY2022*
Accounting as per	Ind-AS	Ind-AS	Ind-AS
Profit after tax (Rs. crore)	7	10	7
Net worth (Rs. crore)	186	297	305
Total managed assets (Rs. crore)	1,386	1,452	1,397
Return on average managed assets (%)	0.5%	0.7%	0.7%
Return on average net worth (%)	3.6%	4.0%	3.2%
Gross gearing (times)	3.2	2.3	3.3
Adjusted gearing (times)	3.8	2.6	3.3
Gross NPA (%)	0.9%	2.8%	4.7%
Net NPA (%)	0.3%	1.6%	2.2%
Solvency (Net NPA/Net worth)	1.1%	3.9%	7.4%
CRAR (%)	24.6%	34.5%	29.1%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)						Chronology of Rating History for the Past 3 Years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of January 31, 2022 (Rs. crore) *		Date & Rating in FY2022		Date & Rating in FY2021			Date & Rating in FY2020				Date & Rating in FY2019	
					Feb 14, 2022	Jul 01, 2021	Apr 23, 2021	Mar 31, 2021	Nov 24, 2020	Sep 28, 2020	Mar 27, 2020	Jan 02, 2020	Oct 16, 2019	Apr 23, 2019	Jan 10, 2019	Oct 05, 2018
1	Non-convertible debentures	Long term	270.00	270.00	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA]BBB&	[ICRA]BBB&	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB- (Stable)
2	Bank lines	Long term	800.00	690.29	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA]BBB&	[ICRA]BBB&	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB- (Stable)
3	Commercial paper programme	Short term	50.00	0.00	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+	[ICRA]A3+&	[ICRA]A3+&	[ICRA] A3+	[ICRA] A3+	-	-	-	-

****Source:*** Company*

& Under rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Simple
Bank lines	Simple
Commercial paper programme	Very 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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE02DI07035	Non-convertible debentures	Oct 13, 2018	13.9%	Mar 31, 2023	25	[ICRA]BBB (Stable)
INE02DI07068	Non-convertible debentures	Oct 24, 2018	13.1%	Jun 02, 2022	43	[ICRA]BBB (Stable)
INE02DI07043	Non-convertible debentures	May 20, 2019	13.1%	May 20, 2022	41	[ICRA]BBB (Stable)
INE02DI07050	Non-convertible debentures	Oct 22, 2019	12.9%	Oct 22, 2025	35	[ICRA]BBB (Stable)
INE02DI07084	Non-convertible debentures	Nov 27, 2020	11.7%	Nov 24, 2023	22	[ICRA]BBB (Stable)
INE02DI07076	Non-convertible debentures	Nov 27, 2020	11.7%	Nov 24, 2023	22	[ICRA]BBB (Stable)
INE02DI07092	Non-convertible debentures	Mar 30, 2021	12.4%	Mar 30, 2023	23	[ICRA]BBB (Stable)
INE02DI07100	Non-convertible debentures	Jul 30, 2021	11.7%	Jul 30, 2024	37	[ICRA]BBB (Stable)
INE02DI07118	Non-convertible debentures	Aug 20, 2021	11.7%	Aug 20, 2024	22	[ICRA]BBB (Stable)
NA	Long-term bank facilities	Mar 07, 2019 – Oct 22, 2021	7.0% - 13.9%	Feb 08, 2022 – Dec 31, 2024	800	[ICRA]BBB (Stable)
NA	Commercial paper programme – Proposed/yet to be issued	NA	NA	7-365 days	50	[ICRA]A3+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545307
sachin.sachdeva@icraindia.com

Prateek Mittal
+91 33 71501132
prateek.mittal@icraindia.com

Jatin Arora
+91 124 4545330
jatin.arora@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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