

Meyer 03 2022

Originator: Ujjivan Small Finance Bank Limited

March 28, 2022

Ratings

Instrument#	Amount (Rs. Crore)	Structure	Tenure* (months)	Rating	Credit Enhancement* (Rs. Crore)	
					Subordination	Cash Collateral
Series A1 SNs	149.24 (Rs. One hundred forty-nine crore and twenty-four lakh only)	Par (TI-UP)	234	Provisional CARE AAA (SO) [Triple A (Structured Obligation)]	12.98	8.11
Equity Tranche SNs	8.11 (Rs. Eight crore and eleven lakh only)	Par (UI-UP)		Provisional CARE AA (SO) [Double A (Structured Obligation)]	4.87	

Details of instruments/facilities in Annexure-1.

The Series A1 SNs are rated based on the timely payment of interest and principal, Equity Tranche is based on ultimate payment of both interest and principal

\$ EIS in the transaction will flow back to the originator on monthly basis after payout to SN holders

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

Rating in the absence of the pending steps/ documents	No rating can be assigned
---	---------------------------

Detailed Rationale and Key Rating Drivers

CARE Ratings Ltd has assigned the ratings of 'Provisional CARE AAA (SO)' [pronounced as 'Triple A (Structured Obligation)'] and 'Provisional CARE AA (SO)' [pronounced as 'Double A (Structured Obligation)'], respectively, to the Series A1 SNs and Equity Tranche SNs issued by Meyer 03 2022 backed by loan against property (LAP) receivables originated by Ujjivan Small Finance Bank Limited (USFB).

The ratings are based on the credit quality of the underlying loans, support in the form of credit enhancement, credit underwriting and servicing capability of the Originator, 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 Ltd., are furnished by the Originator:

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

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

None for Series A1 SNs; for Equity Tranche SN:

- Lower-than-expected delinquencies.
- Build-up of cash collateral (as % of Balance POS).

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Higher-than-expected delinquencies.
- Sharp deterioration in the credit profile of the originator.
- Non-adherence to key transaction terms envisaged at the time of the rating.

Detailed description of the key rating drivers

The transaction is structured at par, promises interest payouts and principal payouts (corresponding to 92% of principal billings) to Series A1 SNs monthly. The structure also provides for the payment of principal payout to Series A1 SN (corresponding to balance 8%) on expected basis. The interest payouts and principal payouts to Equity Tranche SNs are promised to be paid on or

before the final legal maturity. The Equity Tranche may expect interest payout as per Waterfall Mechanism as principal of Equity Tranche SNs will be paid only after full repayment of Series A1 SNs.

The credit enhancement for Series A1 SNs includes cash collateral of 5.00%, principal subordination (equity tranche and over collateral) of 5.00% and 3.00%, respectively, and excess interest spread (EIS) of 61.28% of Pool POS in the structure. Credit enhancement for Series Equity Tranche includes all of the above mentioned (except Equity Tranche SN itself) as per Waterfall Mechanism. Cash collateral will be in the form of fixed deposit with a lien marked in the favour of the trust as per CARE Ratings Ltd's criteria. The support of both, over collateral and EIS, is subject to realisation. EIS is also subject to the compression on account of prepayments in the Pool.

The assigned Pool consists of 2,064 LAP contracts, aggregating to a principal outstanding of Rs.162.22 crore as on cut-off date February 28, 2022. The top three states account for 75.75% of the total principal of the Pool with the top state, Karnataka, accounting for 40%. All the contracts are current on payment. The Pool has weighted an average seasoning of 21.4 months.

Key Rating Strengths:

- The robustness of transaction structure and well-defined payment mechanism;
- Credit enhancement comprising cash collateral, subordinated equity tranche and over collateral, EIS;
- No overdue contracts as on the Pool cut-off date; all contracts are ever current as on the Pool cut-off date;
- Underwriting policies and collection capabilities of USFB;
- Moderate-weighted average seasoning of around 21.4 months with amortisation of around 7.3%.

Key Rating Weaknesses:

- High concentration with the top three states accounting for 75.75% of the Pool.
- Low vintage of the LAP portfolio.

Liquidity Position – Strong:

The inherent liquidity in the structure is strong. The interest and principal payouts for Series A1 SNs are promised monthly. Equity Tranche SNs are fully subordinated to Series A1 SNs. Interest and Principal payouts of equity tranche holders are promised to be paid by final legal maturity. In case of any delinquency, the payouts are expected to be supported by credit enhancement consisting of cash collateral (in the form of fixed deposit), subordination of Equity Tranche SN (for Series A1 SN), principal subordination in the form of over collateral and EIS.

Applicable Criteria

[Policy on default recognition](#)

[Assignment of Provisional Rating](#)

Analytical approach

[CARE Ratings Ltd's 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 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 Ltd's Policy on assignment of Provisional Ratings.

Risks associated with provisional nature of 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 Ltd, the final rating is assigned by CARE Ratings Ltd. In absence of receipt of documents or in case such documents deviate significantly from transaction structure considered by CARE Ratings Limited, the provisional rating will be reviewed / withdrawn in line with the Policy on Assignment of Provisional Ratings and it may be possible that no rating may be assigned.

Key Rating Assumptions

CARE Ratings Ltd has analysed the transaction to assess whether the credit enhancement is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of the underlying Pool, CARE Ratings Ltd has analysed the performance of static Pools provided by the Originator and overall portfolio performance of the Originator. Considering the borrower profile and nature of loan, Pool characteristics and portfolio performance, CARE Ratings Ltd has taken the average shortfall at 5%-6% of the principal outstanding. 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.

About the Company

USFB, incorporated on July 04, 2016, is a subsidiary of Ujjivan Financial Services Limited (UFSL). UFSL is a Bangalore-based microfinance company registered as non-banking financial company-micro finance institution (NBFC-MFI) with RBI. It has been in the microfinance lending since 2005 and has operated through joint liability group (JLG) model in urban and semi-urban areas and target customers who are salaried as well as self-employed women. UFSL was one of the 10 entities to be granted "in-

principle" approval by RBI) on September 16, 2015, to set up a bank under the "Guidelines for Licensing of Small Finance Banks in the private sector" (Guidelines) issued by the RBI on November 27, 2014.

Subsequently, on November 11, 2016, RBI granted the license to USFB to carry out the banking business in India. Accordingly, USFB formally commenced its operations on February 1, 2017, whereby in line with the terms with Business Transfer Agreement (BTA) effective from February 1, 2017, entered between UFSL and USFB, the entire assets/liabilities of UFSL had been transferred to USFB. As per the listing norms requirement of RBI for small finance banks (SFBs), the bank concluded its initial public offering (IPO) process and got listed on NSE and BSE on December 12, 2019. Post IPO, UFSL's shareholding stands at 83.32% in USFB.

As on December 31, 2021, the gross advances were Rs.16,463 crore with a deposit base of Rs.15,563 crore. USFB serves over 62 lakh customers through 575+ branches and 16,896 employees spread across 248 districts and 24 states and union territories in India.

Key Financial Indicators – USFB

Particulars (Rs. crore)	FY20(A)	FY21(A)	9MFY22 (UA)
Total Income	3,026	3,117	2,205
PAT	350	8	-541
Interest coverage (times)	1.60	1.75	1.49
Total Assets (tangible)	18,411	20,380	21,199
Net NPA (based on 90+dpd) (%)	0.20	2.93	1.67
ROTA (including off book) (%)	2.18	0.04	-2.72

A-Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

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

Any Other Information: Nil

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Series A1 Securitisation Notes	-	-	-	149.24	Provisional CARE AAA (SO)
Equity Tranche SNs	-	-	-	8.11	Provisional CARE AA (SO)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Series A1 Securitisation Notes	LT	149.24	Provisional CARE AAA (SO)	-	-	-	-
2.	Equity Tranche SNs	LT	8.11	Provisional CARE AA (SO)	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument /facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of Instrument	Complexity Level
1	Pass through Certificates	Highly Complex

Annexure-5: Bank Lender Details for this Company:

Not applicable

Note on complexity levels of the rated instrument: CARE Ratings Ltd 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**Media Contact**

Name - Mr. Mradul Mishra
Contact no. - +91-22-6754 3596
Email ID – mradul.mishra@careedge.in

Analyst Contact

Name - Mr. Sriram Rajagopalan
Contact no.- +91-22-6754 3652
Group Head Email ID - sriram.rajagopalan@careedge.in

Business Development Contact

Name: Mr. Nitin Dalmia
Contact no.: 080-46625555
Email ID: nitin.dalmia@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**