March 22, 2023

Vedika Credit Capital Ltd: Rating confirmed as final for PTCs backed by microfinance loan receivables issued by Aria KTM 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Aria KTM 2023	PTC Series A1	35.78	[ICRA]A-(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In January 2023, ICRA had assigned a Provisional [ICRA]A-(SO) rating to PTC Series A1 issued by Aria KTM 2023. The pass-through certificates (PTCs) are backed by a pool of Rs. 48.16-crore microfinance loan receivables (underlying pool principal of Rs. 40.20 crore) originated by Vedika Credit Capital Ltd. (VCCL). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the performance of the pool after the March 2023 payout month has been provided below.

Parameter	Aria KTM 2023
Months post securitisation	2
Pool amortisation	10.10%
PTC Series A1 amortisation	11.36%
Cumulative collection efficiency	100.00%
Loss-cum-0+ dpd	0.00%
Loss cum 30+ dpd	0.00%
Cumulative Prepayment rate	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and cash collateral
- Absence of overdue contracts as on pool cut-off date
- Moderate pre-securitization amortization of ~24% as on the cut-off date

Credit challenges

- Geographically concentrated pool at state level with top three states having 63% share as on pool cut-off date
- Performance of pool would remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile; further, pool performance would also be exposed to political and communal risks.
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any.

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation (i.e. subordination) of 11.00% of the pool principal. Further credit support is available in the form of an EIS of 11.56% and a CC of 9.00% of the initial pool principal (i.e. Rs. 3.62 crore) to be provided by VCCL.

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A1 at the predetermined interest rate on the principal outstanding. The principal repayment to PTC Series A1 is promised on the last payout date. During the tenure of PTC Series A1, the collections from the pool, after making the promised interest payouts, will be used to make the expected principal payouts to PTC Series A1. This principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. The EIS, if any, shall flow back to the originator on every payout date after making all the payouts to PTC Series A1 as per the Waterfall Mechanism. Also, in the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

There are no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top 3 states constituting ~63% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (~7 months) and pre-securitisation amortisation (23.8%). The pool would be exposed to the inherent credit risk associated with the unsecured nature of the asset class and its performance would remain exposed to macro-economic shocks/business disruptions. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

Past rated pools performance: ICRA has rated two standalone PTC transactions of VCCL in the past, including one which has matured. The live pool has 100% cumulative collection efficiency with nil CC utilisation as of the March 2023 payout.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the 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 performance of the originator's portfolio as well as the 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 4.0-5.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 3.0-9.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the principal amount for PTC Series A1 is promised on the scheduled maturity date of the transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC investors.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

Analytical approach

The rating actions are based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

Vedika Credit Capital Ltd is a non-deposit taking, non-banking financial company (NBFC). It was originally registered as a private limited company but was later converted into a public limited company in November 1995. It was reregistered to carry out the business of an NBFC with approval from the Reserve Bank of India in March 1998. Until February 2004, the company was involved in stockbroking activities under its earlier owners. The current owners, Mr. Gautam Jain and Mr. Vikram Jain, bought the company in 2004. They discontinued the broking activities and commenced the vehicle finance business through the company. In 2007, VCCL started the microfinance business and transferred the earlier vehicle financing portfolio to its Group company, Jatinder Finance Private Limited, which is now known as Vedika Fincorp Private Limited. Since 2007, VCCL is focused on the microfinance business with products like joint liability group (JLG) loans and micro-housing loans.

Key financial indicators (audited)

	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)
Total income	123.5	104.1	112.9
• **Profit after tax**	-17.2	6.4	23.2
Assets under management	615.0	512.0	746.0
Gross NPA	1.8%	2.1%	2.0%
Net NPA	0.0%	0.0%	0.0%

Amount in Rs. crore
Source: Company's financial statements, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr No	Trust Name	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					March 22, 2023	January 31, 2023	-	-	-
1	**Aria KTM 2023**	PTC Series A1	35.78	35.78	**[ICRA]A-(SO)**	**Provisional [ICRA]A-(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex

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

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Aria KTM 2023	PTC Series A1	January 2023	13.25%	September 2024	35.78	[ICRA]A-(SO)

** Scheduled PTC maturity date at transaction initiation; may change on account of prepayments*
Source: *Company*

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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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

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