

July 03, 2024

Veritas Finance Private Limited: Ratings confirmed as final for PTCs backed by small business loan and home construction loan receivables issued by Vajra 009 Trust

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Vajra 009 Trust	Series A1 PTC	200.00	[ICRA]AAA(SO); provisional rating confirmed as final
	Series A2 PTC	100.00	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA had assigned provisional ratings to the Series A1 Pass-Through Certificates (PTC) and Series A2 PTC issued by Vajra 009 Trust under a securitisation transaction originated by Veritas Finance Private Limited (Veritas/Originator). The PTCs are backed by a mixed pool of small business loan (SBL) and home construction loan (HCL) receivables originated by Veritas with an aggregate principal outstanding of Rs. 334.03 crore (pool receivables of Rs. 519.16 crore). 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 ratings have now been confirmed as final.

Transaction structure

The transaction has a three-tranche structure with Series A1 PTC comprising 59.87% of the pool principal, followed by Series A2 PTC (29.94%) and the equity tranche (10.19%).

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout (on pari-passu basis to the holders of Series A1 PTC and Series A2 PTC on the outstanding PTC principal) and principal payout (59.87% of the pool principal billed) to Series A1 PTC. The balance principal (40.13% of the pool principal billed), after the replenishment of the credit enhancement, is expected to be paid on a monthly basis until the maturity of Series A1 PTC. A part of the residual cash flow from the pool (35%), after meeting the promised and expected payouts, will be used for the prepayment of the Series A1 PTC principal while the balance (65%) would be used for the payment of the equity tranche. Any prepayment in the pool would be used for the prepayment of the Series A1 PTC principal.

After the maturity of Series A1 PTC, the monthly cash flow schedule to Series A2 PTC comprises the promised interest payout and principal payout (89.81% of the pool principal billed). The balance principal (10.19% of the pool principal billed), after the replenishment of the credit enhancement, is expected to be paid on a monthly basis until the maturity of Series A2 PTC. A structure similar to the one used for Series A1 PTC would be followed to make the residual cash flow and prepayment payouts to Series A2 PTC. Further, ICRA notes that in case of a shortfall in collections at the end of the scheduled maturity date of the PTCs, the cash collateral (CC) will be utilised first for paying the dues towards Series A1 PTC and then for the dues towards Series A2 PTC.

The credit enhancement available in the structure is in the form of (i) a CC of 4.50% of the initial pool principal, amounting to Rs. 15.03 crore, provided by the Originator, (ii) subordination of 40.13% of the initial pool principal for Series A1 PTC and 10.19% of the initial pool principal for Series A2 PTC, and (iii) the excess interest spread (EIS) of 39.70% of the initial pool principal for Series A1 PTC and Series A2 PTC.

Key rating drivers and their description

Credit strengths

Availability of credit enhancement – The pool was granular, consisting of 9,021 contracts, with no contract exceeding 1% of the initial pool principal as on the cut-off date, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb a part of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool had been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, none of the contracts in the pool had ever been delinquent, which is a credit positive.

Seasoned contracts in the pool – The pool had amortised by almost 15% as on the cut-off date with no delinquencies seen in any of the contracts, post loan disbursement, thereby reflecting the borrowers' relatively better credit profile.

Contracts backed by self-occupied residential properties – A major part of the pool (~95% of the contracts in terms of the principal amount outstanding on the cut-off date) is backed by self-occupied residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Credit challenges

Significant geographical concentration – The pool had high geographical concentration with the top 3 states, viz. Tamil Nadu, Andhra Pradesh and West Bengal, contributing ~70% to the initial pool principal amount as on the cut-off date. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.75% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 7.2% to 27.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Vajra 009 Trust
Originator	Veritas Finance Private Limited
Servicer	Veritas Finance Private Limited
Trustee	Axis Trustee Services Limited
CC bank	ICICI Bank
Collection and payout account bank	ICICI Bank

Liquidity position: Superior

The liquidity for both PTC instruments is superior after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement would be greater than 8 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable for Series A1 PTC; the rating could be upgraded for Series A2 PTC if sustained strong collection performance is witnessed in the underlying pool, leading to low delinquency levels and build-up of the cover from the credit enhancement of the balance pool principal.

Negative factors – The sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (Veritas) could also exert pressure on the ratings.

Analytical approach

The rating action is 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

Veritas Finance Private Limited (Veritas) is a non-banking financial company (NBFC) incorporated on April 30, 2015 and registered with the Reserve Bank of India (RBI). The company is promoted by Mr. D Arulmany and it lends to borrowers engaged in the micro, small and medium enterprise (MSME) sector with a primary focus on providing inclusive finance to self-employed borrowers for their businesses. As on March 31, 2024, it had 434 branches across 10 states, namely Tamil Nadu, West Bengal, Karnataka, Odisha, Andhra Pradesh, Telangana, Bihar, Jharkhand, Chhattisgarh and Madhya Pradesh, as well as the Union Territory (UT) of Puducherry.

Veritas had a gross loan portfolio of Rs. 5,724 crore as on March 31, 2024 (Rs. 3,534 crore as on March 31, 2023). It has divided the MSME loan product segment into two broad heads – MSME Rural and MSME Urban, apart from home loans (HLs). While the MSME Rural segment consists of SBLs and HCLs, MSME Urban is focused on unsecured business loans meant for working capital purposes. The HL segment focuses on affordable housing. These products are differentiated on the basis of the purpose of the loan, customer segment, etc.

MSME Rural is a secured loan product offered for business purposes with a ticket size of Rs. 1 lakh to Rs. 50 lakh. HCLs under this segment are given for home construction, home improvement or shop construction with a ticket size of Rs. 5 lakh to Rs.

25 lakh. HLs are given for purchase or self-construction with a ticket size in the range of Rs. 5 lakh to Rs. 30 lakh. MSME Urban is an unsecured product with a ticket size of Rs. 1 lakh to Rs. 5 lakh.

As on March 31, 2024, the promoter (Mr. Arulmany) and his relatives held 11.70% on a fully-diluted basis while other shareholders include Norwest Venture Partners X Mauritius (21.78%), Multiples PE and affiliates (16.38%), Kedaara Capital Fund II LLP (15.21%), Lok Capital and affiliates (11.33%), British International Investments Plc. (10.42%), Avendus Future Leaders Fund (2.34%), and Caspian Impact Investment Advisers Private Limited (0.19%). The balance is held by individual shareholders and employees and their relatives.

Key financial indicators

Veritas Finance Private Limited	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	443.65	682.21	1,123.80
PAT	75.85	174.70	245.49
Assets under management (AUM)	2,187.35	3,533.73	5,723.79
Gross NPA	3.94%	2.19%	1.79%
Net NPA	2.34%	1.26%	0.85%
CRAR	64.43%	45.00%	41.49%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years				
		Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Jul 03, 2024	Jun 27, 2024			
Vajra 009 Trust	Series A1 PTC	200.00	200.00	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	-
	Series A2 PTC	100.00	100.00	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 PTC	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

ISIN No.	Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
INE0YD015016	Vajra 009 Trust	Series A1 PTC	June 26, 2024	9.25%	November 20, 2030	200.00	[ICRA]AAA(SO)
INE0YD015024		Series A2 PTC	June 26, 2024	9.75%	November 20, 2030	100.00	[ICRA]AA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

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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.

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Branches



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