September 25, 2024

Veritas Finance Private Limited: Rating upgraded for PTCs issued under small business loan and home construction loan securitisation transaction

Summary of rating action

Trust name	Instrument*	Initial rated amount (Rs. crore)	Amount O/s after last surveillance (Rs. crore)	Amount O/s after Aug-24 payout (Rs. crore)	Rating action
Indigo 023	Series A1 PTC	100.00	NA	49.35	[ICRA]AAA(SO); Upgraded from [ICRA]AA+(SO)

**Instrument details are provided in Annexure I*

Rationale

The pass-through certificates (PTCs) are backed by a pool of small business loan (SBL) and home construction loan (HCL) receivables originated by Veritas Finance Private Limited (Veritas/Originator).

The rating upgrade factors in the build-up of the credit enhancement cover over the future PTC payouts on account of pool amortisation and healthy pool performance. The rating also draws comfort from the fact that the breakeven collection efficiency is lower compared to the actual collection level observed in the pool till the August 2024 payout month.

Pool performance summary

Parameter	Indigo 023
Payout month	August 2024
Months post securitisation	11
Pool amortisation (as % of initial pool principal)	37.54%
Series A1 PTC amortisation (as % of initial PTC principal)	50.65%
Last 3 months' average monthly collection efficiency[1]	98.49%
Cumulative collection efficiency[2]	98.95%
Cumulative prepayment rate[3]	13.15%
Monthly prepayment rate	1.95%
Loss-cum-0+ dpd (% of initial pool principal)[4]	3.27%
Loss-cum-30+ dpd (% of initial pool principal)[5]	2.30%
Loss-cum-90+ dpd (% of initial pool principal)[6]	0.93%
Breakeven collection efficiency[7]	53.94%

[1] *Average of (Total current and overdue collections for the month as a % of Total billing for the month) for 3 months*
[2] *Cumulative collections / (Cumulative billings + Opening overdue at the time of securitisation)*
[3] *Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal*
[4] *Unbilled and overdue principal portion of contracts delinquent for more than 0 days, as a % of Initial pool principal*
[5] *Unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of Initial pool principal*
[6] *Unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal*
[7] *(Balance cash flows payable to investor – CC available) / Balance pool cash flows*

Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	8.01%
Excess interest spread (EIS; as % of balance pool)[8]	22.87%
Principal subordination (% of balance pool principal)	28.91%

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout and principal payout (89.97% of the pool principal billed) to Series A1 PTC. The balance principal (10.03%), 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 (75%), after meeting the promised and expected payouts, will be used for the prepayment of the Series A1 PTC principal while the balance (25%) 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.

Key rating drivers and their description

Credit strengths

Healthy pool performance – The pool's performance has been healthy with a cumulative collection efficiency of ~99% till the August 2024 payout month. This has resulted in low delinquencies in the pool with the 90+ days past due (dpd) and 180+ dpd at 0.93% and 0.32%, respectively. The breakeven collection efficiency is also low compared to the collection efficiency observed in the pool.

Considerable build-up of credit enhancement – The rating factors in the build-up in the credit enhancement with the cash collateral increasing to ~8% of the balance pool principal from 5% at the time of securitisation. Further, there have been no instances of cash collateral utilisation till date owing to the strong collection performance and the presence of subordination and EIS in the transaction.

Contracts backed by self-occupied residential properties – A major part of the pool (~95% of its contracts) 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 has significant geographical concentration with the top 3 states, viz. Tamil Nadu, West Bengal and Madhya Pradesh, comprising ~70% of the balance pool principal amount. 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

[8] *(Pool cash flows till PTC maturity month– Cash flows to PTC A1 – Originator's residual share) / Pool principal outstanding*

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.

ICRA has estimated the shortfall in the pool principal collection during its tenure at 2.25% with certain variability. 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 transaction are as follows:

Transaction Name	Indigo 023
Originator	Veritas Finance Private Limited
Servicer	Veritas Finance Private Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	ICICI Bank
Collection and payout account bank	ICICI Bank

Liquidity position: Superior

The liquidity for the 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 more than 10 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The sustained weak collection performance of the underlying pool of contracts, 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 rating.

Analytical approach

The rating action is based on the analysis of the performance of Veritas' portfolio till June 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

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.

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

S. No.	Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Instrument	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
					Sep 25, 2024	Sep 29, 2023	Sep 14, 2023	-	-
1	**Indigo 023**	Series A1 PTC	100.00	49.35	**[ICRA]AAA(SO)**	**[ICRA]AA+(SO)**	**[ICRA]AA+(SO)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Series A1 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	Current Amount Rated (Rs. crore)	Current Rating
INE0RAC15010	**Indigo 023**	Series A1 PTC	September 20, 2023	9.75%	July 20, 2028	49.35	[ICRA]AAA(SO)

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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