

November 29, 2024

## Veritas Finance Limited: Rating confirmed as final for PTCs backed by small business loan and home construction loan receivables issued by Vajra 013 Trust

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Vajra 013 Trust	Series A1 PTC	50.00	[ICRA]AA+(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

ICRA had assigned provisional rating to the pass-through certificates (PTC) issued by Vajra 013 Trust under a securitisation transaction originated by Veritas Finance 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. 56.15 crore (pool receivables of Rs. 87.44 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 rating has now been confirmed as final.

### Pool performance summary

Parameter	Vajra 013 Trust
Payout month	November 2024
Months post securitisation	2
Pool amortisation	5.52%
Series A1 PTC amortisation	7.01%
Cumulative prepayment rate	3.91%
Cumulative collection efficiency <sup>1</sup>	99.93%
Loss-cum 0+ days past due (dpd) <sup>2</sup>	0.16%
Loss cum 30+ dpd <sup>3</sup>	0.00%
Loss cum 90+ dpd <sup>4</sup>	0.00%
Cumulative cash collateral utilisation	0.00%

### Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. A part of the residual cash flow from the pool (25%), after meeting the promised and expected payouts, will be used for the prepayment of the Series A1 PTC principal while the balance (75%) 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.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 4.00% of the initial pool principal, amounting to Rs. 2.25 crore, provided by the Originator, (ii) subordination of 10.95% of the initial pool principal for Series A1 PTC, and (iii) the excess interest spread (EIS) of 40.07% of the initial pool principal for Series A1 PTC.

<sup>1</sup> Cumulative collections/ (Cumulative billings + Opening overdues at the time of securitisation)

<sup>2</sup> Unbilled and overdue principal portion of delinquent contracts, as a % of Initial pool principal

<sup>3</sup> Unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of Initial pool principal

<sup>4</sup> Unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal

## Key rating drivers and their description

### Credit strengths

**Granular pool supported by presence of credit enhancement** – The pool is granular, consisting of 1,460 contracts, with the top 10 contracts accounting for 2.0% of the 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 has 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 have ever been delinquent, which is a credit positive.

**Seasoned contracts in the pool** – The pool had amortised by ~16% on the cut-off date with no delinquencies in any of the contracts, post loan disbursement. This reflects the relatively better credit profile of the borrowers.

**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 has high geographical concentration with the top 3 states, viz. Tamil Nadu, Andhra Pradesh and Telangana, contributing ~72% to the initial 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 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 4.50% 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 transaction are as follows:

Transaction Name	Vajra 013 Trust
Originator	Veritas Finance Limited
Servicer	Veritas Finance 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 instrument 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 8 times the estimated loss in the pool.

## 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 build-up of cover from the credit enhancement of the balance pool principal, would result in a rating upgrade.

**Negative factors** – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), 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 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the originator

Veritas Finance Limited (Veritas) is a non-banking financial company (NBFC) incorporated as Veritas Finance Private Limited 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 September 30, 2024, Veritas had 494 branches (including 105 Veritas Service Centres) 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. 6,517 crore as on September 30, 2024 (Rs. 5,724 crore as on March 31, 2024). It has divided the MSME loan product segment into two broad heads – MSME Rural and MSME Urban, apart from home loans (HLs) and Vehicle Finance (VF). 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. The VF segment focuses on used commercial vehicles (CV) and cars. These products are differentiated on the basis of the purpose of the loan, customer segment, etc.

As on September 30, 2024, the promoter (Mr. Arulmany) and his relatives held 9.86% on an undiluted basis while other shareholders include Norwest Venture Partners X Mauritius (21.90%), Multiples PE and affiliates (16.47%), Kedaara Capital Fund II LLP (15.30%), Lok Capital and affiliates (13.86%), British International Investments Plc. (10.48%), Avendus Future Leaders Fund (2.94%), 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	FY2023	FY2024	H1 FY2025
	Audited	Audited	Provisional
Total income	682.2	1,123.8	1,067.9
PAT	174.7	245.5	198.8
Assets under management (AUM)	3,533.7	5,723.8	6,517.2
Gross NPA	2.2%	1.8%	2.0%
Net NPA	1.3%	0.9%	1.0%
CRAR	45.0%	41.5%	40.9%

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
				Nov 29, 2024	Oct 10, 2024			
Vajra 013 Trust	Series A1 PTC	50.00	50.00	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-	-	-

#### Complexity level of the rated instrument

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

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
Vajra 013 Trust	Series A1 PTC	October 10, 2024	9.50%	January 20, 2031	50.00	[ICRA]AA+(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.

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For more information, visit [www.icra.in](http://www.icra.in)

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