

March 18, 2025

Veritas Finance Limited: Rating actions for PTCs issued under small business loan and home construction loan securitisation transactions

Summary of rating actions

Trust name	Instrument*	Initial rated amount (Rs. crore)	Amount O/s after last surveillance (Rs. crore)	Amount O/s after Jan-25 payout (Rs. crore)	Rating action
Vajra 006 Trust	Series A1 PTC	74.00	NA	30.53	[ICRA]AAA(SO); Reaffirmed
	Series A2 PTC	29.00	NA	29.00	[ICRA]AA+(SO); Upgraded from [ICRA]AA(SO)
Vajra 007 Trust	Series A1 PTC	50.00	NA	32.41	[ICRA]AAA(SO); Upgraded from [ICRA]AA+(SO)
Vajra 008 Trust	Series A1 PTC	100.00	NA	62.60	[ICRA]AAA(SO); Reaffirmed

*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 Limited (Veritas/Originator). Veritas is also the servicer for the transactions.

The rating actions factor in the build-up of the credit enhancement cover over the future PTC payouts on account of high amortisation and healthy pool performance. The ratings also draw comfort from the fact that the breakeven collection efficiency is lower compared to the actual collection level observed in the pools till the January 2025 payout month.

Pool performance summary

Parameter	Vajra 006 Trust	Vajra 007 Trust	Vajra 008 Trust
Payout month	January 2025	January 2025	January 2025
Months post securitisation	11	10	10
Pool amortisation (as % of initial pool principal)	32.9%	24.1%	28.1%
Series A1 PTC amortisation (as % of initial PTC principal)	58.8%	35.2%	37.4%
Last 3 months' average monthly collection efficiency ¹	98.6%	99.1%	98.6%
Cumulative collection efficiency ²	99.2%	99.5%	99.2%
Cumulative prepayment rate ³	13.7%	11.7%	11.0%
Loss-cum-0+ dpd (% of initial pool principal) ⁴	2.4%	1.3%	2.6%
Loss-cum-30+ dpd (% of initial pool principal) ⁵	1.4%	0.9%	1.6%
Loss-cum-90+ dpd (% of initial pool principal) ⁶	0.6%	0.4%	0.6%
Breakeven collection efficiency ⁷			
Series A1 PTC	25.1%	54.1%	55.9%
Series A2 PTC	26.6%	-	-
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%
CC available (as % of balance pool)	7.5%	6.6%	7.0%

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

Excess interest spread (EIS; as % of balance pool)⁸			
Series A1 PTC	35.7%	37.5%	29.4%
Series A2 PTC	29.5%		
Principal subordination (% of balance pool principal)			
Series A1 PTC	60.0%	23.1%	24.0%
Series A2 PTC	22.1%		

Transaction structure

Vajra 006 Trust

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout and principal payout (90.51% of the pool principal billed). The balance principal (9.49% of the pool principal billed) is expected to be paid on a monthly basis until the maturity of Series A1 PTC. After the maturity of Series A1 PTC, the payout to Series A2 PTC will follow a similar structure. A part of EIS (50%), after meeting the promised and expected payouts, would be used for the prepayment of Series A1 PTC principal while the balance 50% would be used for payment of Series A2 PTC principal. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

Vajra 007 Trust

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout and principal payout (90% of the pool principal billed). The balance principal (10% of the pool principal billed) is expected to be paid on a monthly basis until the maturity of Series A1 PTC. A part of EIS (75%), after meeting the promised and expected payouts, would be used for the prepayment of Series A1 PTC principal while the balance 25% would be passed on to the Originator. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

Vajra 008 Trust

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 EIS (40%), after meeting the promised and expected payouts, would be used for the prepayment of Series A1 PTC principal while the balance 60% would be passed on to the Originator. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

Key rating drivers and their description

Credit strengths

Healthy pool performance – The performance of the pools has been healthy with cumulative collection efficiency above 99% till January 2025 payout month, which resulted in low delinquencies in the pools with 90+ days past due (dpd) for Vajra 006, Vajra 007 and Vajra 008 at 0.58%, 0.35% and 0.60%, respectively. Further, there have been no instances of cash collateral utilisation till date owing to strong collection performance and the presence of EIS in the transaction.

Considerable build-up of credit enhancement – The ratings factor in the build-up of the credit enhancement with cash collateral increasing to ~7.5%, 6.6% and 7.0% of the balance pool, respectively, compared to 5.0% at the time of securitisation for all the transactions. Internal credit support is also available through scheduled EIS and subordination.

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

Contracts backed by self-occupied residential properties – The pool is backed by self-occupied residential properties. This is expected to support the pool quality, as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Adequate servicing capability of Veritas – The company has adequate processes for servicing the loan accounts in the securitised pool. It has demonstrated an established track record of almost a decade of regular collections and recovery across multiple geographies.

Credit challenges

Risks associated with lending business – The pool performance would remain exposed to macroeconomic 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 principal collection and prepayments during the tenure as provided in the following table.

Transaction Name	Estimated Shortfall (% of initial pool principal)	Prepayment (p.a.)
Vajra 006 Trust	3.00%	7.0-27.0%
Vajra 007 Trust	3.00%	7.0-27.0%
Vajra 008 Trust	3.00%	7.0-27.0%

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 006 Trust	Vajra 007 Trust	Vajra 008 Trust
Originator	Veritas Finance Limited	Veritas Finance Limited	Veritas Finance Limited
Servicer	Veritas Finance Limited	Veritas Finance Limited	Veritas Finance Limited
Trustee	Catalyst Trusteeship Limited	Axis Trustee Services Limited	Axis Trustee Services Limited
CC holding bank	ICICI Bank	ICICI Bank	ICICI Bank
Collection and payout account bank	ICICI Bank	ICICI Bank	ICICI Bank

Liquidity position: Superior

The liquidity for the PTC instruments for all the transactions 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 10 times the estimated loss in the pools.

Rating sensitivities

Vajra 006 Trust

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 pools, leading to low delinquency levels and build-up of cover from the credit enhancement (CE) of the balance pool principal.

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 ratings downgrade. Weakening in the credit profile of the servicer could also exert pressure on the ratings.

Vajra 007 Trust and Vajra 008 Trust

Positive factors – Not Applicable

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 ratings downgrade. Weakening in the credit profile of the servicer could also exert pressure on the ratings.

Analytical approach

The rating actions are based on the performance of the pools till January 2025 payout month, present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

Analytical Approach	Comments
Applicable rating methodologies	Securitisation Transactions
Parent/Group support	Not applicable
Consolidation/Standalone	Not applicable

About the originator

Veritas Finance 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 founded 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 December 31, 2024, Veritas had 502 branches across 11 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. 6,927 crore as on December 31, 2024 (Rs. 5,724 crore as on March 31, 2024). The company has divided the MSME loan product segment into two broad heads – MSME Rural and MSME Urban, apart from home loans. MSME Rural constitutes small business loans (SBLs) and home construction loans (HCLs), while MSME Urban is focused on unsecured business loans meant for working capital purposes. The home loan (HL) segment focuses on affordable housing. These products are differentiated on the basis of the purpose of the loan, customer segment, etc.

As on December 31, 2024, on a fully-diluted basis, Mr. Arulmany and his relatives held 9.86% 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, as well as their relatives.

Key financial indicators

Veritas Finance Limited	FY2023	FY2024	9M FY2025
	Audited	Audited	Unaudited
Total income	682.21	1,123.80	1,128.03
PAT	174.70	245.49	202.04
Assets under management (AUM)	3,533.73	5,723.79	6,927.41
Gross NPA	2.19%	1.79%	2.12%
Net NPA	1.26%	0.85%	1.00%
CRAR	45.00%	41.49%	39.15%

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	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
					March 18, 2025	Mar 04, 2024	Feb 28, 2024	-	-
1	Vajra 006 Trust	Series A1 PTC	74.00	30.53	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-
		Series A2 PTC	29.00	29.00	[ICRA]AA+(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-

		Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years				
S. No.	Trust Name	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
					March 18, 2025	Apr 04, 2024	March 22, 2024	-	-
2	Vajra 007 Trust	Series A1 PTC	50.00	32.41	[ICRA]AAA(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-	-

		Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years				
S. No.	Trust Name	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
					March 18, 2025	Apr 04, 2024	March 22, 2024	-	-
3	Vajra 008 Trust	Series A1 PTC	100.00	62.60	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
Vajra 006 Trust	Series A1 PTC	Moderately Complex
	Series A2 PTC	Moderately Complex
Vajra 007 Trust	Series A1 PTC	Moderately Complex
Vajra 008 Trust	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 Rated Amount (Rs. crore)	Current Rating
INE0TTV15016	Vajra 006 Trust	Series A1 PTC	February 28, 2024	9.37%	February 20, 2027	30.53	[ICRA]AAA(SO)
INE0TTV15024		Series A2 PTC	February 28, 2024	9.93%	August 20, 2029	29.00	[ICRA]AA+(SO)
INE0UQJ15015	Vajra 007 Trust	Series A1 PTC	March 27, 2024	9.75%	July 20, 2030	32.41	[ICRA]AAA(SO)
INE0UQO15015	Vajra 008 Trust	Series A1 PTC	March 27, 2024	9.75%	February 20, 2029	62.60	[ICRA]AAA(SO)

*scheduled maturity at transaction initiation, may change on account of prepayments in the underlying pool. Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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