

## Press Release

Vedika Credit Capital Limited - Aritra Growth 1

March 30, 2022



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Pass Through Certificates (PTCs)	12.64	Provisional   ACUITE A-   SO   Assigned	-
Total Outstanding Quantum (Rs. Cr)	12.64	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE PROVISIONAL A-(SO)**' (read as **ACUITE Provisional A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 12.64 Cr issued by Aritra Growth 1 under a securitisation transaction originated by Vedika Credit Capital Limited (VCCL) (The Originator). The PTCs are backed by a pool of loans provided to individuals for MFI with principal outstanding of Rs. 14.05 Cr (including Rs. 1.40 Cr of over collateralisation).

The provisional rating addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date, in accordance with the transaction documentation. The transaction is structured at par.

The provisional rating is based on the strength of cash flows from the selected pool of contracts; the credit enhancement is available in the form of

- Over collateralisation of 10.0% percent of the pool principal;
- Cash collateral of 7.50% of the pool principal; and
- Excess Interest Spread of Rs. 1.82 Cr. i.e. 12.92 % of the pool principal

The rating of the PTCs is provisional and shall be converted to final rating subject to the execution of the following documents:

- Trust Deed
- Deed of Assignment
- Servicing Agreement
- Legal Opinion
- Final Term Sheet

## Rationale for rating reaffirmation

## About the Originator

Jharkhand based VCCL, is a Non-Banking Finance Company (NBFC) Micro Finance Institution (MFI) primarily engaged in extending Micro loans to women borrowers under the Joint Liability Group Model since 2007. The company has presence in 7 states, primarily in eastern India through a network of 192 branches as on September 30, 2021. The company was originally

incorporated in 1995 by a different set of owners and subsequently, the company was taken over in 2004 by the present promoters, Mr. Ummed Mal Jain (Chairman) and his sons, Mr. Gautam Jain and Mr. Vikram Jain. Mr. Gautam Jain (Managing Director) was initially engaged in traditional financing and gradually instrumented his aim to transform his lending operations into a recognized and regulated NBFC-MFI - VCCL. The promoters are engaged in two wheeler financing through Vedika Fincorp Limited, a group company of VCCL.

The company has increased its geographical presence from three states, i.e. Bihar, Jharkhand, and West Bengal in 2016 to seven states in 2020 by diversifying to Assam, Uttar Pradesh, Tripura and Odisha and increased network coverage from 44 branches as on March 31, 2016 to 192 branches as on September 30, 2021. The company's AUM stood at Rs. 520.93 Cr. as on September 30, 2021 as compared to Rs. 512.41 Cr. in FY2021 and Rs.615.22 Cr. in FY2020.

### **Assessment of the pool**

VCCL has Asset Under Management of Rs. 604.91 Cr as on December 31, 2021. The underlying pool of Rs 14.05 Cr in current Pass Through Certificate (PTC) transaction comprises of MFI loans has been extended towards 5,380 individual borrowers, displaying significant granularity, with an average ticket size of Rs. 34,290, minimum ticket size of Rs. 18,000 and maximum of Rs. 42,800. The current average outstanding per borrower stands at Rs. 26,112. The weighted average original tenure for pool is of 21.69 months (minimum 12 months & maximum 24 months). The pool has a healthy weighted average seasoning of 6.53 months (minimum 3 months seasoning and maximum of 13 months seasoning). Furthermore, none of the loans in the pool availed moratorium and none of the loans in the pool had gone into the Non-CURRENT bucket since origination, which are healthy signs. 81.6% of the customers in the pool belonged to the agriculture-allied industries, followed by 14.7% in the business industry.

52.04% of the borrowers are concentrated in Odisha followed by 19.04% in Bihar and 13.32% in Jharkhand, displaying moderate geographical concentration. The top 10 borrowers of pool constitute 0.10% (i.e. Rs.1.46 lakhs) of the pool principal O/s.

### **Credit Enhancements (CE)**

The transaction is supported in the form of

- i. Over collateralisation of 10.0% percent of the pool principal;
- ii. Cash collateral/ First Loss Credit Enhancement of 7.50% of the pool principal; and
- iii. Excess Interest Spread of Rs. 1.82 Cr. i.e. 12.92 % of the pool principal

### **Transaction Structure**

The transaction is structured at par. Collections of a particular month will be utilized to make promised interest and expected principal payouts to Series 1 PTCs and expected interest payment to Series 1 PTCs. The provisional rating addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date, in accordance with transaction documentation.

### **Assessment of Adequacy of Credit Enhancement**

Acuité has arrived at a base case delinquency estimate of 3.0 – 4.0 % in respect of the loan assets being securitised. Acuite has further has applied appropriate stress factors to the base loss figures to arrive at the final loss estimates and consequently the extent of credit enhancement required. The final loss estimates also consider the risk profile of the particular asset class i.e. MFI loans, the borrower strata, economic risks and the demonstrated collection efficiency over the past eleven months. Acuité has also considered the track record of operations of the originator and certain pool parameters while arriving at the final loss estimate. Acuité has accounted for the probable impact of COVID19 in the transaction for its analysis.

### **Legal Assessment**

The provisional rating is based on draft term sheet, the conversion of rating from provisional to final, shall include, besides other documents, the legal opinion to the satisfaction of Acuite. The legal opinion shall cover, adherence to RBI guidelines, true sale, constitution of the trust, bankruptcy remoteness and other related aspects.

## Key Risks

### Counterparty Risks

The pool has average ticket size of Rs. 34,290, minimum ticket size of Rs. 18,000 and maximum of Rs. 42,800. Considering their vulnerable credit profile of the borrowers, the risk of delinquencies/defaults are elevated. These risks of delinquencies are partly mitigated, considering the efficacy of the originator's origination and monitoring procedures.

### Concentration Risks

Since the pool is entirely granular, i.e. underlying assets in the pool are in nature of MFI loans to 5,380 individual borrowers, hence the risk is significantly mitigated.

### Servicing Risk

There is limited track record of servicing PTCs, since this is one of the first few PTC transactions for the originator.

### Regulatory Risk

In the event of a regulatory stipulation impacting the bankruptcy remoteness of the structure, the payouts to the PTC holders may be impacted.

### Prepayment Risk

The pool is subject to prepayment risks since rate of interest is significantly high and borrowers may be inclined to shift to low cost options (based on availability). Prepayment risks are partially mitigated by prepayment penalty levied by the company for pre-closures. In case of significant prepayments, the PTC holders will be exposed to interest rate risks, since the cash flows from prepayment will have to be deployed at lower interest rates.

### Outlook

Not applicable.

### Key Rating sensitivity

- Collection performance of the underlying pool
- Credit quality of the underlying borrowers
- Decrease in cover available for PTC payouts from the credit enhancement

Even if the base case default is increased by 10%, the transaction's rating will not change.

### Material Covenants

The following covenant is included in the transaction structure: The purchase consideration to be paid by the issuer to the originator for purchasing the pool is equal to Series A1 issue price.

### Liquidity Position – Adequate

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to 7.50% of the pool principal. The PTC payouts will also be supported by an internal credit enhancement in the form of over collateralisation (10.00 % of pool principal) and excess interest spread (12.92% of pool principal).

### Key Financials - Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	462.35	522.03
Total Income*	Rs. Cr.	48.07	57.13
PAT	Rs. Cr.	6.42	(17.16)
Net Worth	Rs. Cr.	85.11	49.54
Return on Average Assets (RoAA)	(%)	1.30	(3.26)
Return on Average Net Worth (RoNW)	(%)	9.54	(29.36)
Debt to Equity ratio	Times	4.12	8.84
GNPA	(%)	2.17	1.81
NNPA	(%)	0.00	0.00

\*Total income equals to Net interest income plus other income

### Status of non-cooperation with previous CRA (if applicable):

None

## Any other information

### Supplementary disclosures for Provisional Ratings

#### Risks associated with the provisional nature of the credit rating

In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently assign a fresh final rating in the same press release, basis the revised terms of the transaction.

#### Rating that would have been assigned in absence of the pending steps/ documentation

In the absence of the pending steps/ documents the PTC structure would have become null and void, and Acuite would not have assigned any rating.

#### Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Securitised transactions - <https://www.acuite.in/view-rating-criteria-48.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

#### Rating History (Upto last three years)

Not applicable.

#### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Pass Through Certificate	Not Applicable	Not Applicable	Not Applicable	12.64	Provisional   ACUITE A-   SO   Assigned

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### About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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