

Press Release

Vedika Credit Capital Limited - Aritra Growth 3

December 08, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Pass Through Certificates (PTCs)	5.93	ACUITE A- SO Assigned Provisional To Final	-
Total Outstanding Quantum (Rs. Cr)	5.93	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has converted the rating of '**ACUITE A-(SO)**' (read as **ACUITE A minus (Structured Obligation)**) assigned to the Pass Through Certificates (PTCs) of Rs. 5.93 Cr issued by Aritra Growth 3 under a securitisation transaction originated by Vedika Credit Capital Limited (VCCL) (The Originator) from "Provisional" to "Final". The PTCs are backed by a pool of microfinance with principal outstanding of Rs. 6.78 Cr (including Rs. 0.85 Cr of over collateralisation).

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

- (i) Over collateralisation of 12.5% percent of the pool principal;
- (ii) Cash collateral of 7.50% of the pool principal; and
- (iii) Excess Interest Spread of Rs. 0.59 Cr. i.e. 8.64% of the pool principal

The final rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, legal opinion, trust deed and other documents relevant to the transaction.

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 June 30, 2022. 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 June 30, 2022. The company's AUM stood at Rs. 752.55 Cr. as on June 30, 2022.

Assessment of the Pool

VCCL has Asset Under Management of Rs. 752.55 Cr as on June 30, 2022. The underlying pool of Rs 6.78 Cr in current Pass Through Certificate (PTC) transaction comprises of MFI loans extended towards 3,282 individual borrowers, displaying significant granularity, with an average ticket size of Rs. 29,000. The current average outstanding per borrower stands at Rs. 20,646. The weighted average original tenure for pool is of 18.00 months. The pool has a moderate weighted average seasoning of 5.00 months. 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. 78.0% of the customers in the pool belonged to the dairy farming industries, followed by 9.4% in the small business industry. 30.4% of the borrowers are concentrated in Uttar Pradesh followed by 28.4% in Bihar and 24.0% in Odisha, displaying moderate geographical concentration. The top 10 borrowers of pool constitute 0.30% of the pool principal O/s.

Credit Enhancements (CE)

The credit enhancement is available in the form of

- (i) Over collateralisation of 12.5% percent of the pool principal;
- (ii) Cash collateral of 7.50% of the pool principal; and
- (iii) Excess Interest Spread of Rs. 0.59 Cr. i.e. 8.64% 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 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. Acuité 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 final rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, servicing agreement, legal opinion, accounts agreement, assignment agreement and other documents relevant to the transaction.

Key Risks

Counter Party Risks

The pool has average ticket size of Rs. 29,000. 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 3,282 individual borrowers, hence the risk is significantly mitigated.

Servicing Risks

There is moderate track record of servicing PTCs for the originator.

Regulatory Risks

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

Prepayment Risks

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.

Commingling Risk

The transaction is subject to commingling risk since there is a time gap between last collection date and transfer to payout account.

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 (12.5 % of pool principal) and excess interest spread (8.64% of pool principal).

Outlook - Not Applicable

Key Financials - Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	756.23	462.35
Total Income*	Rs. Cr.	51.27	48.07
PAT	Rs. Cr.	23.25	6.42
Net Worth	Rs. Cr.	104.71	85.11
Return on Average Assets (RoAA)	(%)	3.82	1.30
Return on Average Net Worth (RoNW)	(%)	24.49	9.54
Debt/Equity	Times	6.13	4.12
Gross NPA	(%)	2.01	2.21
Net NPA	(%)	0.00	0.00

*Total income equals to Net Interest Income plus other income

Status of Non Cooperation with Other Credit Rating Agencies

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- Securitized Transactions: <https://www.acuite.in/view-rating-criteria-48.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Sep 2022	Pass Through Certificates	Long Term	5.93	ACUITE Provisional A-(SO) (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Pass Through Certificate	Not Applicable	0.0	Not Applicable	Highly Complex	5.93	ACUITE A- SO Assigned Provisional To Final

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About Acuité Ratings & Research

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