



Press Release
VEDIKA CREDIT CAPITAL LIMITED - ARITRA GROWTH 1
June 16, 2023
Rating Upgraded

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|--------------------------|-------------------|
| Pass Through Certificates (PTCs) | 1.16 | ACUITE A SO Upgraded | - |
| Total Outstanding Quantum (Rs. Cr) | 1.16 | - | - |

Rating Rationale

Acuite has upgraded the long term rating from '**Acuite A-(SO)**' (read as **Acuite A minus (Structured Obligation)**) to **Acuite A(SO)**' (read as **Acuite A (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 1.16 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. 2.56 Cr.

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. Cash collateral of 41.02% of the pool principal;
- ii. Excess Interest Spread; and
- iii. A subordinated Equity Tranche of Rs. 1.40 Cr. i.e. 54.69% of the pool principal

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 November 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 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.

Assessment of the Pool

As per the initial rating, 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.

As per the payout report for May 2023, the pool has witnessed healthy CE built up of 41.09%. The pool has significantly amortised by 81.75%. There has been no CE utilization till date. Also, there has been no 90+ delinquency yet. There are 3,435 live accounts in the pool.

Credit Enhancements (CE)

The credit enhancement is available in the form of:

1. Cash collateral of 41.02% of the pool principal o/s;
2. Excess Interest Spread; and
3. A subordinated Equity Tranche of Rs. 1.40 Cr. i.e. 54.69% of the pool principal o/s

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 rating is assigned based on the fulfilment of the structure, terms and cov enants 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. 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 Risks

There is limited track record of servicing PTCs, since this is one of the first few PTC transactions 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 credit enhancement is available in the form of:

1. Cash collateral of 41.02% of the pool principal o/s;
2. Excess Interest Spread; and
3. A subordinated Equity Tranche of Rs. 1.40 Cr. i.e. 54.69% of the pool principal o/s

Outlook

Not Applicable

Other factors affecting the rating

None

Key Financials - Originator

| Particulars | Unit | FY23 (Actual) | FY22 (Actual) |
|------------------------------------|---------|------------------|---------------|
| Total Assets | Rs. Cr. | 914.96 | 756.23 |
| Total Income | Rs. Cr. | 83.39 | 51.27 |
| PAT | Rs. Cr. | 17.01 | 23.25 |
| Net Worth | Rs. Cr. | 157.26 | 104.71 |
| Return on Average Assets (RoAA) | (%) | 2.04 | 3.92 |
| Return on Average Net Worth (RoNW) | (%) | 12.99 | 24.94 |
| Debt to Equity ratio | Times | 4.68 | 6.13 |
| GNPA | (%) | 0.89 | 2.01 |
| NNPA | (%) | 0.00 | 0.00 |

Status of Non Cooperation with Other CRA

None

Any Other Information

Not applicable

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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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 |
|-------------|--------------------------------|-----------|-----------------|--------------------------------------|
| 21 Jun 2022 | Pass Through Certificates | Long Term | 12.64 | ACUITE A-(SO) (Assigned) |
| 30 Mar 2022 | Pass Through Certificates | Long Term | 12.64 | 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 | 28 Mar 2022 | 10.50 | 22 Jan 2024 | Highly Complex | 1.16 | ACUITE A SO Upgraded |

Contacts

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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