



Press Release
VELICHAM FINANCE PRIVATE LIMITED - POLARIS 03 2024
August 07, 2024

Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Pass Through Certificates (PTCs)	8.62	Provisional ACUITE BBB+ SO Reaffirmed & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	8.62	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE PROVISIONAL BBB+ (SO)**' (read as **ACUITE Provisional Triple B Plus (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 7.76 Cr. proposed to be issued by Polaris 03 2024 (Trust) under a securitisation transaction originated by VELICHAM FINANCE PRIVATE LIMITED (VFPL) (The Originator). The PTC is backed by a pool of unsecured MSME loans with principal outstanding of Rs. 8.62 Cr.

The withdrawal of rating reflects non-fulfilment of conditions for conversion of provisional ratings with regards to submission of required documents laid out in the press release dated April 02, 2024. Further, we have not received the request from the client for an extension in the time period from 90 to 180 days, within the stipulated time period required for the conversion of the provisional to final rating.

The rating addresses the timely payment of interest and ultimate payment of principal on monthly payment dates 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) Subordinated Equity tranche with investment by the originator of 2.50 percent of the pool principal;
- (ii) Cash collateral of 7.50 percent of the pool principal;
- (iii) Over collateral of 7.50 percent of the pool principal; and
- (iv) Excess Interest Spread of 12.56 percent of the pool principal.

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

1. Trust Deed
2. Deed of Assignment
3. Servicing Agreement
4. Legal Opinion
5. Final Term Sheet
6. Any other documents relevant to the transaction

About the Originator

Chennai based Velicham Finance Private Limited (VFPL) is an NBFC engaged in extending loan against property (LAP) towards MSME borrowers and income generation loans. Velicham Finance Private Limited (VFPL) has its genesis with Bharathi Women Development Centre

(BWDC), which was established in December 1987 as a Society by Mr. Nagarajan Muthukrishnan, who is the Managing Director of Velicham Finance Private Limited (VFPL). The company operates in Tamil Nadu, Puducherry and Kerala with a network of 28 branches as on March 31, 2023.

Assessment of the pool

VFPL had Assets under management of Rs. 164.63 Cr. as on February 29, 2024. The current pool being securitised comprises 5.24 percent of the total AUM. The underlying pool in the current Pass Through Certificate (PTC) transaction comprises of unsecured MSME loans extended towards 631 borrowers, with an average ticket size of Rs. 1.81 lakhs, minimum ticket size of Rs. 0.75 lakhs and maximum of Rs. 5 lakhs, indicating moderate granularity. The current average outstanding per borrower stands at Rs. 1.37 lakhs. The weighted average original tenure for the pool is 25.16 months. The pool has weighted average seasoning of 7.21 months (minimum 4 months seasoning and maximum of 13 months seasoning). Hence, the pool is moderately seasoned. All the loans under the pool are current as on pool cut-off date. The pool's geographical concentration is high. 100.00 percent of the borrowers are concentrated in Tamil Nadu. The top 10 borrowers of pool constitute 4.72 percent of the pool principal o/s.

Credit Enhancements (CE)

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) Subordinated equity tranche with investment by the originator of 2.50 percent of the pool principal;
- (ii) Over collateral of 7.50 percent of the pool principal;
- (iii) Cash collateral of 7.50 percent of the pool principal; and
- (iv) Excess Interest Spread of 12.56 percent of the pool principal.

Transaction Structure

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

Legal Assessment

The provisional rating is based on a draft term sheet. The conversion of rating from provisional to final, shall include, besides other documents, the legal opinion to the satisfaction of Acuité. 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. 1.81 lakhs, minimum ticket size of Rs. 0.75 lakhs and maximum of Rs. 5 lakhs. Considering the 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

The pool is concentrated, i.e. underlying assets in the pool are in nature of unsecured MSME loans extended towards 631 individual borrowers, hence the geographic concentration risk exists. However top 10 borrowers constitutes 4.72 percent of the pool principal O/s.

Servicing Risk

Since this is the first PTC transaction for the originator. Also, the vintage of the originator in this portfolio is low. Therefore, the servicing risk for the transaction remains high.

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). Further, the asset class being housing loans, the risk of prepayment remains high. 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.

Key Rating sensitivity

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

All Covenants (Applicable only for CE & SO Ratings)

The facilities comprising the pool shall be identified on the basis of the following criteria:

- No facility comprising the pool is classified as a "non-performing asset" for the purposes of the directions and guidelines of the RBI.
- Loans should not have been restructured or rescheduled;
- Compliance with "know your customer" norms specified by the RBI
- The pool should comply with the Minimum Holding Period requirements prescribed under the Securitisation Directions.
- No facility comprising the pool is overdue as on the Pool Cut Off Date.

Servicer's events of default will, *inter alia*, include:

- Failure to remit the collections;
- Bankruptcy of the Servicer;
- Failure of 2 successive discretionary audits testing the ability of the Servicer to meet the standards with respect to collection standards, management, governance, internal systems and processes, and data integrity, as may be required by the Trustee; and
- Downgrade in the rating of the Originator/Servicer/ First Loss Credit Enhancer by 1 notch
- Such other events as may be set out in the servicing agreement.

All Assumptions

Acuité has arrived at a base case delinquency estimate basis its analysis of the company's historical delinquencies and further applied appropriate stress factors to the base loss figures to arrive at the final loss estimates. The loss estimate also consider the risk profile of the particular asset class, the borrower strata, economic risks, collection efficiency over the past several months as well as the credit quality of the originator. Acuité also has simulated the potential losses to an extent by applying sensitivity analysis.

Liquidity Position

Adequate

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to 7.50 percent of the pool principal. The PTC payouts will also be supported by an internal credit enhancement in the form of subordinated equity tranche (2.50 percent of pool principal), over collateral (7.50 percent of pool principal and excess interest spread (12.56 percent of pool principal)

Outlook

Not Applicable

Key Financials - Originator

Particulars	Unit	FY24 (Provisional)	FY23 (Actual)

Total Assets	Rs. Cr.	123.95	67.95
Total Income*	Rs. Cr.	20.66	10.83
PAT	Rs. Cr.	6.57	2.47
Networth	Rs. Cr.	24.46	13.80
Return on Average Assets (RoAA)	(%)	6.84	4.79
Return on Net Worth (RoNW)	(%)	34.32	21.56
Total Debt/Tangible Net Worth (Gearing)	Times	3.93	3.77
Gross NPA's	(%)	0.24	0.11
Net NPA's	(%)	0.14	0.05

*Total income equals to Net interest income plus other income

Any other information

None

Status of disclosure of all relevant information about the Obligation being Rated

Non Public

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.

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.

Applicable Criteria

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

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Apr 2024	Pass Through Certificate	Long Term	8.62	ACUITE Provisional BBB+ (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 avl. / Not appl.	Pass Through Certificate	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Highly Complex	8.62	Provisional ACUTE BBB+ SO Reaffirmed & Withdrawn

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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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