**Press Release**
**VELICHAM FINANCE PRIVATE LIMITED - LOANX 07 2024**
**October 10, 2024**
**Rating Assigned**

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---|---|---|
| **Pass Through Certificates (PTCs)** | 7.98 | ACUITE BBB+ \| SO \| Assigned | - |
| **Total Outstanding Quantum (Rs. Cr)** | 7.98 | - | - |
| **Total Withdrawn Quantum (Rs. Cr)** | 0.00 | - | - |

## Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB+ (SO)' (read as ACUITE Triple B plus (Structured Obligation)** to the Pass Through Certificates (PTCs) of Rs. 7.98 Cr. issued by Loanx 07 2024 (Trust) under a securitisation transaction originated by VELICHAM FINANCE PRIVATE LIMITED (VFPL) (The Originator). The PTCs are backed by a pool of unsecured and secured MSME, Agri and Allied and Family Support loans with principal outstanding of Rs. 9.12 Cr.

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 12.50 percent of the pool principal;
(ii) Cash collateral of 5.00 percent of the pool principal;
(iii) Excess Interest Spread of 16.50 percent of the pool principal.

The final rating has been assigned as the following documents have been received:
1. Trust Deed
2. Deed of Assignment
3. Servicing Agreement
4. Legal Opinion
5. Final Term Sheet
6. Other documents relevant to the transaction

The rating is assigned based on the adherence to the structure, terms and covenants detailed in the executed trust deed, servicing agreement, legal opinion, assignment agreement, final term sheet and other documents relevant to the transaction.

## About the Originator

Chennai based Velicham Finance Private Limited (VFPL) is an NBFC engaged in extending secured and unsecured loans 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, 2024.

## Assessment of the Pool

VFPL had Assets under management of Rs. 191.31 Cr. as on March 31, 2024. The current pool being securitised comprises 4.76 percent of the total AUM. The underlying pool in the current Pass Through Certificate (PTC) transaction comprises of unsecured and secured MSME, Agri and allied, Family Support loans extended towards 647 borrowers, with an average ticket size of Rs. 1.72 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. 1.41 lakhs. The weighted average original tenure for the pool is 24.91 months. The pool has weighted average seasoning of 7.03 months (minimum 5 months seasoning and maximum of 9 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. About 93.1 percent of the borrowers are concentrated in Tamil Nadu based on the principal outstanding. The top 10 borrowers of pool constitute 4.18 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 12.50 percent of the pool principal;
(ii) Cash collateral of 5.00 percent of the pool principal; and
(iii) Excess Interest Spread of 16.50 percent of the pool principal.

### Transaction Structure

The transaction has a par structure, wherein the loan pool is to be assigned to the trust for a purchase consideration equal to 87.50% of the principal outstanding (POS) consisting of Series A1 PTCs and Subordinated Equity Tranche of 12.50%. The final rating of Series A1 PTCs addresses the timely payment of interest on each payout date and the ultimate payment of principal to the Series A1 PTCs investors on the scheduled payout date in accordance with the transaction documentation. Upon the occurence of certain events as duly mentioned in the term sheet, 100% EIS in the structure will be trapped and will be utilized towards accelerated prepayments of Series A1 PTC's Principal till the time Series A1 PTCs are outstanding.

### Brief Methodology

Parameters considered are seasoning of the pool, pool vs portfolio, portfolio cuts, amortisation of the pool, internal cash flow modeling, pool characteristics, static pool, dynamic DPDs to assign final rating.

### Legal Assessment

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

## Key Risks

### Counter Party Risks

The pool has average ticket size of Rs. 1.72 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. 81.98 percent of underlying assets in the pool are in nature of unsecured MSME, Agri and Allied and Family Support loans extended towards 647 individual borrowers, hence the geographic concentration risk exists. However top 10 borrowers constitutes 4.18 percent of the pool principal O/s

### Servicing Risks

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

### 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). Further, the asset classes being Agri & Allied , MSME, Family Support 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.

### 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)

1. Minimum Holding Period (MHP) of the Facilities comprising the Total Pool should meet the criteria set under the RBI Securitization Directions. It is clarified that MHP shall be calculated from the date of first repayment of the Facility;
2. The minimum retention requirement in respect of the underlying Facilities comprising the Pool should comply with the requirements prescribed under the RBI Securitisation Directions;
3. No Facility is classified as a non-performing asset for the purposes of the directions and guidelines of the RBI;
4. Each underlying Facility should have minimum residual tenor of 12 months/ 365 days as on the Pool Cut-off Date;
5. Compliance with know your customer (KYC) norms specified by the RBI;

No Facility should have been "restructured" or "rescheduled" in the books of the Seller (determined in accordance with the criteria prescribed by the RBI);

7. The Facilities should be existing at the time of selection, and must not have been terminated or prepaid;
8. The Seller has not initiated any legal or repossession action against any of the Obligors or in respect of any of the Facilities;
9. All Pool contracts have Zero DPDs;
10. The mode of repayment in respect of each Facility should be by way of a mandate setting out National Automated Clearing House (NACH) instructions, by way of Electronic Clearance Services (ECS), or by way of direct debit from the operative account of the Obligors, or any other similar debit/transfer instructions for payment/repayment;
11. Each underlying Facility comprising the Pool must have a date/maturity date of no later than 1 (one) month prior to the Series Al Legal Final Maturity Date;
12. No MAC/ cross-default events should have occurred under the underlying Facility agreements
13. No force majeure clauses should exist under the underlying Facility agreements;
14. All Pool contracts should have been fully disbursed by the Originator;
15. Each underlying Facility comprising the Pool is free from any Encumbrance and the Seller is the sole legal and beneficial owner of such Facility;
16. None of the borrowers are mentioned in or appear in the RBI's list of defaulters, the ECGC's list of defaulters and/or the RBI willful defaulters list;
17. No instance of fraud or misrepresentation has occurred in respect of any of the Facilities comprising the Pool;
18. No underlying Facilities comprising the Pool has been previously assigned to any other bank or financial institution by the Seller;
19. Each underlying Facility should have a maximum residual tenor of not more than 30 months as on the Pool Cut Off Date;
20. No borrower in the pool should have CRIF score of less than 625;
21. For New to Credit (NTC) borrowers, principal outstanding as of the cut-off date should not be more than INR 2 lacs;
22. No borrower in the pool should have EMI to Residual Income Ratio >= 70.0%. EMI refers to the monthly instalment of the underlying facility, and residual income is computed as monthly income of the borrower, /ess monthly expenses estimated at 60.0% of the income, /ess any existing EMIs being paid by the borrower before the sanction of the underlying facility);
23. No borrower should be included in the pool for whom the data around bureau score or EMI to Residual Income Ratio is not available.

## 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 5.00 percent of the pool principal. The PTC payouts will also be supported by an internal credit enhancement in the form of subordinated equity tranche (12.50 percent of pool principal) and excess interest spread (16.50 percent of pool principal)

## Outlook

Not Applicable

## Key Financials - Originator

| Particulars | Unit | FY24 (Actual) | FY23 (Actual) |
|---|---|---|---|
| Total Assets | Rs. Cr. | 126.16 | 67.95 |
| Total Income* | Rs. Cr. | 20.79 | 10.83 |
| PAT | Rs. Cr. | 6.20 | 2.47 |
| Networth | Rs. Cr. | 24.09 | 13.80 |
| Return on Average Assets (RoAA) | (%) | 6.39 | 4.79 |
| Return on Net Worth (RoNW) | (%) | 32.73 | 21.56 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 3.99 | 3.77 |
| Gross NPA's | (%) | 0.4 | 0.11 |
| Net NPA's | (%) | 0.3 | 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 information**

## 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. 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

- 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

## Rating History :

Not Applicable

## Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Complexity Level | Rating |
|---|---|---|---|---|---|---|---|---|
| Not Applicable | Not avl. / Not appl. | Pass Through Certificate | 23 Jul 2024 | 13.00 | 29 Dec 2026 | 7.98 | Highly Complex | ACUITE BBB+ \| SO \| Assigned |

**Contacts**

| | |
|---|---|
| Mohit Jain<br>Senior Vice President-Rating Operations<br><br>Nattasha Venkatesh<br>Associate Analyst-Rating Operations | **Contact details exclusively for investors and lenders**<br><br>Mob: +91 8591310146<br>Email ID: analyticalsupport@acuite.in |

**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.