



Press Release
VELICHAM FINANCE PRIVATE LIMITED - SOCIAL IMPACT TRUST JANUARY 2025
February 03, 2025
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Pass Through Certificates (PTCs)	7.49	Provisional ACUITE BBB+ SO Assigned	-
Total Outstanding Quantum (Rs. Cr)	7.49	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned long-term rating of '**Provisional ACUITE BBB + (SO)**' (read as **Provisional ACUITE triple B plus (Structured Obligation)**) to the Rs. 7.49 Cr. Securitization Note (SN) in the form of Pass Through Certificate (PTC), proposed to be issued by SOCIAL IMPACT TRUST 01 2025 (The Trust) under a securitisation transaction originated by VELICHAM FINANCE PRIVATE LIMITED (The Originator).

The series A1 SN is backed by a pool of loans consisting of secured and unsecured MSME and Agri and allied loans which comprise a principal outstanding of Rs. 8.14 Cr.

The provisional rating for the series A1 PTC 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 provisional rating is based on the strength of cash flows from the selected pool of contracts; the credit enhancement is available to the SNs in the form of:

- i. Subordinated Equity Tranche of 8.00% of the pool principal
- ii. Excess Interest Spread of 13.29% of the pool principal
- iii. Cash Collateral of 5.00% of the pool principal

The rating of the SNs 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 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 47 branches as on

December 31, 2024.

Standalone Rating of the Originator

Acuite BBB-/Stable

Assessment of the pool

VFPL had Assets under management of Rs. 220.01 Cr. as on December 31, 2024. The current pool being securitised comprises 3.70 percent of the total AUM. The underlying pool in the current Securitization Note in the form of Pass Through Certificate (PTC) transaction comprises of unsecured and secured MSME, Agri and allied loans extended towards 432 borrowers, with an average ticket size of Rs. 2.38 lakhs, minimum ticket size of Rs. 0.10 lakhs and maximum of Rs. 5 lakhs. The current average outstanding per borrower stands at Rs. 1.88 lakhs. The

weighted average original tenure for the pool is 27.20 months. The pool has weighted average seasoning of 7.44 months (minimum 4 months seasoning and maximum of 22 months seasoning). All the loans under the pool are current as on pool cut-off date. The pool's geographical concentration is high. About 74.24 percent of the borrowers are concentrated in Tamil Nadu based on the principal outstanding followed by Kerala with a concentration of 24.14%. The top 10 borrowers of pool constitute 5.10 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 of 8.00 percent of the pool principal;
- (ii) Cash collateral of 5.00 percent of the pool principal; and
- (iii) Excess Interest Spread of 13.29 percent of the pool principal.

Transaction Structure

The Provisional rating of Series A1 SNs addresses the timely payment of the interest on each payout dates and ultimate payment of principal on final maturity date to the series A1 SN investors, in accordance with the transaction documentation.

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 provisional rating.

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. The final rating will be 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

Counterparty Risks

The pool has average ticket size of Rs. 2.38 lakhs, minimum ticket size of Rs. 0.10 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 underlying pool of Rs.8.14 Cr. in the current Securitization Note (in the form of PTC) transaction comprises of 65.3 percent unsecured and 34.6 percent secured (loans secured through equitable mortgages) MSME, Agri and Allied loans extended towards 432 individual borrowers. The top 10 borrowers constitute 5.10 percent of the pool principal O/s.

Servicing Risk

There is limited track record of servicing SNs /PTCs, since, this is the fourth securitisation transactions for the originator rated by Acuite.

Regulatory Risk

In the event of a regulatory stipulation impacting the bankruptcy remoteness of the structure, the payouts to the SN 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 classes being Agri & Allied and MSME loans, the risk of prepayment remains high. In case of significant prepayments, the SN 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 SN (PTC) payouts from the credit enhancement

All Covenants

The originator has confirmed that there are no covenants. However, the “Receivable eligibility criteria” as captured in the term sheet are as under:

A.Pool Selection Criteria

1. All loans shall have been disbursed to individual borrowers only.
2. All loans should have been sourced by Velicham in the normal course of business in line with the board approved credit policy of Velicham.
3. All loans should have complied with the KYC AML norms prescribed by RBI.
4. None of the loans should be overdue as on the cut off date.
5. None of the loans should have been restructured.
6. None of the borrowers should have been classified as wilful defaulter or fraud.
7. The pool distribution by state should be representative of the overall portfolio of Velicham. In case of any portfolio concentrations, specific approval should be taken prior to finalization of pool.
8. Maximum exposure per borrower should not exceed INR 2 lakhs.
9. For all loans offered in the pool a credit bureau scrub should be obtained and the ki score™ should be checked and approved.
10. None of the borrowers should be a director on the board of Velicham, Kaleidofin Capital or Kaleidofin Private Limited.
11. All loans should comply with MHP and MRR norms stipulated by RBI in extant guidelines related to Securitisation of standard assets.
12. Any other selection criteria as may be updated post scrutiny of pool depending on the pool characteristics.
13. No branch has 0+ >8%.
14. No branch with 90+ >3.5%.

B. Following accounts shall not be included in pool:

1. Securitization exposures
2. Loans with bullet repayments of both principal & interest
3. Assets purchased from other entities
4. Revolving credit facilities
5. Loan with other than monthly repayments.
6. Securities with other facilities.
7. Restructured Accounts/ rescheduled (except rescheduling owing to prepayments and change in rate of interest

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 SN payouts will also be supported by a credit enhancement in the form of subordinated equity tranche (8.00 percent of pool principal) and excess interest spread (13.29 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

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). Acuité 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 SN(PTC) structure would have become null and void, and Acuité 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, 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

- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Securitised Transactions: <https://www.acuite.in/view-rating-criteria-48.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.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	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	7.49	Highly Complex	Provisional ACUITE BBB+ SO Assigned

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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Note: None of the Directors on the Board of Acuité Ratings & Research Limited are members of any rating committee and therefore do not participate in discussions regarding the rating of any entity.