

August 08, 2023

Vriksh Advisors Private Limited: Provisional [ICRA]BB+(SO) assigned to PTCs to be issued by Prosperity Asset 6 Trust

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Prosperity Asset 6 Trust	Series 1 PTCs	4.97	Provisional [ICRA]BB+(SO); Assigned

**Instrument details are provided in Annexure I*

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a provisional rating to the Series 1 pass-through certificates (PTCs) to be issued under a securitisation transaction originated by Vriksh Advisors Private Limited (Vriksh/Originator/Lessor). The PTCs are backed by lease receivables from Praba's VCare Health Clinic Private Limited (VCare/Obligor/Lessee) for assets such as furniture and fixtures, information technology (IT) equipment and medical equipment leased by Vriksh.

The receivables shall include all rental payments, including the goods and services tax (GST) component (rentals) and tax deducted at source net of TDS (if applicable), due from the Lessee to the Lessor as per the terms of the Master Rent Agreement (MRA). The rentals will be discounted at the PTC yield to arrive at the purchase consideration for the PTC investors. As per the terms of the draft MRA to be executed between the Lessor and the Lessee, the rental payments represent an unconditional and irrevocable obligation of the Lessee.

The assigned rating is based on VCare's credit profile, the established relationship between Vriksh and VCare, the track record of rental payments between them under other existing lease agreements and the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Transaction structure ensuring no co-mingling of receivables with the Originator thereby effectively carrying the credit risk of the Lessee (VCare)
- Established track record of lease payments under other existing lease agreements between Originator and Lessee
- Cushion of 20 days between the due dates of the rental payments and the corresponding PTC payout dates and an additional gap of more than 70 days between the last payout date and the legal maturity date.

Credit challenges

- The pool has a single obligor; hence, the payouts on the instrument are strongly linked to the credit profile of the obligor.

Description of key rating drivers highlighted above

The Trustee shall settle a Trust and the receivables due from the Lessee to the Lessor shall be assigned by the Lessor to the Trust (on a non-recourse basis). The Trust would issue PTCs backed by the same. To arrive at the purchase consideration for the PTCs, rentals due from the Lessee will be discounted at the PTC yield. The receivables shall include all rental payments including the GST component and net of TDS (if applicable) due from the Lessee to the Lessor as per the terms of the MRA. The gross rentals will remain unchanged even if there is any change in the GST rate applicable.

The Trustee shall open a no-lien Collection and Payout Account (CPA) in the nature of a Trust & Retention Account (Trust Account) with a bank. The Lessee shall directly transfer the rentals into the CPA of the Trust. All monies credited in the CPA shall be held in the Trust for the benefit of the investors and as per the waterfall mechanism defined in the transaction documents. Thus, the transaction structure ensures that there is no commingling of receivables with the Lessor, thereby effectively carrying the credit risk of the Lessee.

The rentals payable by the Lessee would be paid directly by it to the Trust at quarterly intervals over a period of two years. In the event of the termination of the MRA, the receivables shall include the termination amount due from the Lessee to the Lessor as per the terms of the MRA. The termination amount shall mean the present value of all future receivables due on the date of the termination of the MRA (arrived at by discounting the future receivables at a yield not higher than the PTC yield). Thus, even under a scenario where the MRA is terminated, the PTC investors will not face any shortfall.

Though the PTCs will be paid on a quarterly basis, the principal and interest payment on the PTCs is promised on the final maturity date, which would be 24 months from the date of issuance. The rentals must be deposited in the CPA at least 20 days before each expected payout date. In ICRA's view, the cushion of 20 days between the due date of the rental payment under the MRA and the corresponding PTC payout date is sufficient to manage any operational delays in the rental payment by the Lessee, thus ensuring timely payment to the PTC investors. Further, there is an additional gap of more than 70 days between the last payout date and the legal maturity date.

The rating remains exposed to high concentration risk as the rentals are to be received from a single counterparty, viz. VCare. However, the established track record of lease payments under other existing lease agreements provides comfort. The Lessor would be assigning its rights in the receivables to the Trust and the Trust would therefore be entitled to all the rights available to the Lessor, which would be a mitigant to the risk of non-payment by VCare. The rental payments will be bankruptcy remote from the Lessor.

The assigned rating is based on the credit profile of VCare, the established relationship between Vriksh and VCare, the track record of payments between them and the integrity of the legal structure.

Past rated pools: This is the first transaction (originated by Vriksh), which has been rated by ICRA.

Key rating assumptions

To arrive at the rating, ICRA has relied on the credit profile of the Lessee. Also, the track record of timely payments by the Lessee against the lease rental invoices raised in the past and various other structural features add strength to the transaction.

Liquidity position: Adequate

The payment obligations of VCare to Vriksh are being securitised in the proposed transaction. As per the transaction structure, both the interest and the principal amount is promised to the PTC holders on the scheduled maturity date of the transaction. Basis the on-balance sheet liquidity available with VCare to meet its various payment obligations, the liquidity is deemed to be adequate for the transaction to meet the promised payouts to the PTC Series 1 investors.

Rating sensitivities

Positive factors – Rating can be upgraded if there is an improvement in the credit profile of the Lessee.

Negative factors – The rating can be downgraded if there is a deterioration in the credit profile of Lessee or non-adherence to the terms of the transaction. The rating would be under pressure if there are delays observed in the lease rental payments by the Lessee.

Analytical approach

The rating action is based on the legal structure of the transaction and factors in the payment mechanism along with the credit profile of the Lessee.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Deed of Assignment
3. Legal opinion
4. Trustee letter
5. Notice of Assignment
6. Master Rental Agreement
7. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator/Lessor

Vriksh Advisors Private Limited (Vriksh) is in the business of leasing various movable assets to its identified customers on an operating lease model for a mutually agreed period. Concurrently with the lease of assets, Vriksh assigns all or a significant portion of the lease rent receivable from its customers on a non-recourse basis to third parties. Till date, Vriksh has originated 7 LeaseX (leasing transaction via securitization structure is referred to as "LeaseX) opportunities executed in the form of a securitised debt instrument (SDI). These transactions had a cumulative value of more than Rs. 70 crore and involved 18 Lessees with a monthly payout to the investors.

Grip Invest Technologies Private Limited (Grip), which is Vriksh's related entity, operates a digital platform to discover alternate investment options and offers its users access to various asset-backed, fixed income asset classes. Asset-backed leasing is the primary asset class offered to its users. Grip has enabled 24,300 investors to invest Rs. 690 crore since its launch 3 years ago. It has provided leasing to 130+ companies with a focus on mobility, warehousing, medical equipment, furniture, etc. So far, about Rs. 323 crore has been returned to investors as per the repayment schedules. Grip has received Rs. 95 crore in equity capital from leading institutional investors such as Venture Highway, Endiya Partners, AdvantEdge, Anicut Capital, Nueva Capital and Multiply Ventures.

Key financial indicators – Vriksh

	FY2021 (audited)	FY2022 (audited)	FY2023 (provisional)
Total income	0.05	0.06	0.16
Depreciation	0.01	-	-
Interest	0.00	-	0.87
Profit after tax (PAT)	0.02	(0.03)	(2.16)
Total debt	0.35	-	23.31
Net worth	1.91	1.61	(0.56)

Amount in Rs. crore; All calculations are as per ICRA Research
Source: Company, ICRA Research

About the Lessee

Praba's VCare Health Clinic Private Limited was set up in 2004. It is a multispecialty chain of aesthetic clinics providing International standard U.S FDA approved treatment. The company started its commenced operations in the field of beauty and cosmetics and is currently involved in a wide range of activities like skin care treatments, hair care treatments, advanced hair transplantation, health & wellness education, research & development, advanced diagnostics, manufacturing, distribution, retailing, telemarketing, etc. It has operations in four states (Tamil Nadu, Karnataka, Andhra Pradesh and Telangana) and one Union Territory (Puducherry) across South India through 52 clinics, including 7 super specialty clinics. The company has treated more than 1.6 million clients and has a team of more than 100 experienced trichologists, cosmetologists, surgeons and a service team with more than 1,200 hair & skin experts.

VCare Group

The VCare group of companies has been involved in the health & wellness business since 2006. It was started by Ms. E. Carolin Praba, a certified trichologist, who is the Founder-Chairperson.

Key financial indicators – VCare Group

	FY2021 (audited)	FY2022 (audited)	FY2023 (provisional)
Operating income (OI)	93	135.9	216.3
OPBITDA	29.2	46.5	71.9
Depreciation	7.5	6	5.5
Interest	19.2	17.2	18.7
Profit after tax (PAT)	1.4	21.8	36.4
Total debt	57.9	36.7	21.6
Tangible net worth (TNW)	12.9	34.6	71.5

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					August 08, 2023			
1	Prosperity Asset 6 Trust	Series 1 PTCs	4.97	4.97	Provisional [ICRA]BB+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series 1 PTCs	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate [^]	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Prosperity Asset 6 Trust	Series 1 PTCs	August 2023	13.3%	July 31, 2025	4.97	Provisional [ICRA]BB+(SO)

* Scheduled maturity date is 24 months from date of issuance; may change on account of prepayments

[^]Gross pre-tax yield (quarterly compounded)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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