

September 18, 2023

Vedika Credit Capital Ltd: Rating confirmed as final for PTCs backed by microfinance loan receivables issued by Bruno 2023

Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|------------|---------------|----------------------------------|---|
| Bruno 2023 | PTC Series A1 | 49.92 | [ICRA]A-(SO); provisional rating confirmed as final |

*Instrument details are provided in Annexure-I

Rationale

In May 2023, ICRA assigned a provisional rating to the pass-through certificates (PTC) issued under a securitisation transaction originated by Vedika Credit Capital Ltd (VCCL). The PTCs are backed by receivables from a Rs. 68.62 Crore (pool principal amount of Rs. 55.46 crore) pool of microfinance loan receivables. Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the performance of the pool after the August 2023 payout month has been provided below.

| Parameter | Bruno 2023 |
|---|------------|
| Months post securitisation | 2 |
| Actual pool amortisation | 8.36% |
| PTC Series A1 amortisation | 10.06% |
| Average monthly prepayment rate | 0.00% |
| Cumulative collection efficiency ¹ | 100.00% |
| Loss cum 0+ dpd ² | 0.00% |
| Loss cum 30+ dpd ³ | 0.00% |
| Loss cum 90+ dpd ⁴ | 0.00% |
| Cumulative cash collateral utilisation | 0.00% |

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and cash collateral
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- Geographically concentrated pool at state level with top three states having 70% share
- Performance of pool would remain exposed to natural calamities that may impact the income generating capability of the borrower, given the marginal borrower profile; further, pool performance would also be exposed to political and communal risks.
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

¹ Cumulative collections/ (Cumulative billings + Opening overdues at the time of securitisation)

² Principal outstanding on contracts aged 0+ dpd / Principal outstanding on the pool at the time of securitization

³ Principal outstanding on contracts aged 30+ dpd / Principal outstanding on the pool at the time of securitization

⁴ Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitization

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation (i.e. subordination) of 10.00% of the pool principal. Further credit support is available in the form of an EIS of 12.73% and a CC of 10.00% of the initial pool principal (i.e. Rs. 5.55 crore) to be provided by VCCL.

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A1 at the predetermined interest rate on the principal outstanding. The principal repayment to PTC Series A1 is promised on the last payout date. During the tenure of PTC Series A1, the collections from the pool, after making the promised interest payouts, will be used to make the expected principal payouts to PTC Series A1. This principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. The EIS, if any, shall flow back to the originator on every payout date after making all the payouts to PTC Series A1 as per the waterfall mechanism. Also, in the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the same.

There are no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top 3 states constituting ~70% of the pool principal. The pool consists of monthly paying loan contracts, with lower weighted average seasoning (~3 months) and pre-securitisation amortisation (~11%). The performance of the pool would be exposed to political and communal risks and natural calamities that may impact the income-generating capability of the borrower. Also, it would remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic.

Past rated pools performance: ICRA has rated five standalone PTC transactions of VCCL in the past, including one which has matured. The live pool has 100% cumulative collection efficiency with nil CC utilisation as of the August 2023 payout month.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.5-5.5%, with certain variability around it. The annual prepayment rate for the underlying pool is expected to be in the range of 3.0-9.0%.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the principal amount for PTC Series A1 is promised on the scheduled maturity date of the transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC investors.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

Analytical approach

The rating actions are based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Rating Methodology for Securitisation Transactions |
| Parent/Group Support | Not Applicable |
| Consolidation/Standalone | Not Applicable |

About the originator

Vedika Credit Capital Ltd is a non-Deposit taking, Non-Banking Finance Company. The Company was originally registered as a Private Limited Company but was later converted into a Public Limited Company in November 1995. It was recognized and re-registered to carry out the business of Non-Banking Finance Company with approval from Reserve Bank of India in March 1998. Until February 2004 the company was involved in stock broking activities with its earlier owners. In February 2004, its present owners who stopped stock broking activities and started finance activities purchased the company. The purchasers of the Company were carrying out financing activity through Sole Proprietorship form of business organization. All the business thereafter was diverted to Vedika. Since 2007, the company is into Micro Finance product like Joint Liability Groups loans and Individual Loans.

Key financial indicators

| Vedika Credit Capital Ltd | FY2020 (Audited) | FY2021 (Audited) | FY2022 (Audited) | FY2023 (Audited) |
|---------------------------|---------------------|---------------------|---------------------|---------------------|
| Total income | 123.5 | 104.1 | 112.9 | 166.6 |
| Profit after tax | -17.2 | 6.4 | 23.2 | 17.0 |
| Total assets | 530.2 | 469.2 | 758.9 | 918.5 |
| Gross NPA | 1.8% | 2.2% | 2.0% | 0.89% |
| Net NPA | 0.0% | 0.0% | 0.0% | 0.00% |

Source: Company, ICRA Research; All ratios as per ICRA calculations; Amounts in Rs. Crore;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Sr. No | 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 |
| | | | | | Sep 18, 2023 | May 26, 2023 | | | |
| 1 | Bruno 2023 | PTC Series A1 | 49.92 | 49.92 | [ICRA]A-(SO) | Provisional [ICRA]A-(SO) | - | - | - |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---------------|----------------------|
| PTC Series A1 | 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 Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|-------------------|-----------------|-----------------------------|-------------|----------------|--------------------------|----------------|
| Bruno 2023 | PTC Series A1 | May 2023 | 13.25% | March 2025 | 49.92 | [ICRA]A-(SO) |

*Scheduled PTC maturity date at transaction initiation; may change on account of prepayments

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.

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