

January 29, 2024

Vedika Credit Capital Ltd: Rating upgraded for PTCs issued under microfinance loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
ARIA KTM 2023	PTC Series A1	35.78	NA	11.05	[ICRA]A+(SO); upgraded from [ICRA]A-(SO);

*Instrument details are provided in Annexure I

Rationale

ICRA has upgraded the rating for the pass-through certificates (PTCs) issued under the securitisation transaction, ARIA KTM 2023, backed by a pool of microfinance loan receivables originated by Vedika Credit Capital Ltd (Vedika/originator). The rating upgradation is on account of the significant amortisation in the pool, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts in the transaction. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool.

A summary of the performance of the pool till the November 2023 collection month (December 2023 payout month) has been tabulated below.

Pool performance summary (till December 2023 payout month)

Particulars	ARIA KTM 2023
Months post securitisation	11
Pool amortisation	61.5%
PTC Series A1 amortisation	69.1%
Cumulative collection efficiency ¹	100.0%
Loss-cum-0+ dpd ² (% of initial pool)	0.0%
Loss-cum-30+ dpd ³ (% of initial pool)	0.0%
Loss-cum-90+ dpd ⁴ (% of initial pool)	0.0%
Cumulative cash collateral (CC) utilisation	0.0%
Cumulative prepayment rate	0.0%
Breakeven collection efficiency ⁵ for PTC Series A1	46.4%
CC (% of balance pool)	23.4%
Principal subordination (% of balance pool) PTC Series A1	28.6%
Excess interest spread (EIS ⁶ ; % of balance pool) PTC Series A1	6.2%

¹ (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)

² Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 0 days, as a % of initial pool principal

³ Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 30 days, as a % of initial pool principal

⁴ Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 90 days, as a % of initial pool principal

⁵ (Balance cash flows payable to investor – CC available)/Balance pool cash flows

⁶ (Pool cash flows – Cash flows to PTC investors – Originator's residual share)/Pool principal outstanding

Key rating drivers and their description

Credit strengths

- High amortisation of PTCs resulting in significant build-up of CE cover available for the balance PTC payouts

Credit challenges

- High geographical concentration at state level with the top 3 states accounting for ~64% of the balance pool
- Performance of the pool would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pool's performance would also be exposed to political and communal risks
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of 100% as of the December 2023 payout month. The monthly collection efficiency has been at least 100% in all the months post securitisation. The loss-cum-90+ days past due (dpd) was 0% for the pool as of the December 2023 payout month. Cash collateral (CC) has not been utilised in the transaction till date in any of the payouts. Healthy collections and the significant pool amortisation of 61.5% have led to the build-up of the CE in the pool with the breakeven collection efficiency at ~46%. The average monthly prepayment rate is 0% for the pool. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the rating to the current level in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

The pool's performance would remain exposed to macro-economic shocks/business disruptions. Given the marginal borrower profile, the performance would also be exposed to natural calamities and political and communal risks.

Performance of past rated pools: ICRA has rated five standalone PTC transactions of Vedika in the past, including one which has matured. The live pools have 100% cumulative collection efficiency with nil CC utilisation as per the December 2023 payouts.

Key rating assumptions

ICRA's cash flow analysis of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pool as well as the performance and 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 4.0-5.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 3.0-9.0% per annum.

Liquidity position: Superior

The liquidity for PTC Series A1 is superior after factoring in the CE available to meet the promised payouts to the investor. The total CE would be more than 10 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts, leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the CE would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and higher CE utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pool till November 2023 (collection month), the present delinquency levels and the CE available in the pool, and the performance expected over the balance tenure of the pool.

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 financial company (NBFC). It was originally registered as a private limited company but was converted into a public limited company in November 1995. It was recognised and re-registered to carry out the business of an NBFC with approval from the Reserve Bank of India in March 1998. Until February 2004, the company was involved in stockbroking activities under its earlier owners. In February 2004, its present owners, who stopped stockbroking activities and started financing activities, purchased the company. The present owners were carrying out financing activity through the sole proprietorship form of business. The business was thereafter diverted to Vedika. Since 2007, the company provides microfinance products like joint liability group loans and individual loans.

Key financial indicators (IndAS)

Particulars	FY2020	FY2021	FY2022	FY2023	H1 FY2024
	(Audited)	(Audited)	(Audited)	(Audited)	(Unaudited)
Total income	123.48	106.19	112.87	166.60	105.03
Profit after tax	-17.16	4.71	23.25	17.01	11.74
Total assets	530.24	435.52	758.92	918.48	1,038.34
Gross NPA	1.81%	2.21%	2.01%	0.89%	0.82%
Net NPA	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount 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	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Jan 29, 2024	Mar 22, 2023	Jan 31, 2023	-	-
1	ARIA KTM 2023	PTC Series A1	35.78	11.05	[ICRA]A+(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

Complexity level of the rated instrument

Transaction	Instrument	Complexity Indicator
ARIA KTM 2023	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	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
ARIA KTM 2023	PTC Series A1	January 2023	13.25%	September 2024	11.05	[ICRA]A+(SO)

* Scheduled maturity at transaction initiation; may change on account of prepayment

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.

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