

March 22, 2024

## Veritas Finance Private Limited: Provisional [ICRA]AAA(SO) assigned to PTCs backed by small business loan and home construction loan receivables issued by Vajra 008 Trust

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Vajra 008 Trust	Series A1 PTC	100.00	Provisional [ICRA]AAA(SO); Assigned

\*Instrument details are provided in Annexure I

Rating in the absence of 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 [ICRA]AAA(SO) rating to the Series A1 pass-through certificates (PTCs) backed by a pool of Rs. 114.60-crore (pool principal; receivables of Rs. 169.31 crore) small business loan (SBL) and home construction loan (HCL) receivables originated by Veritas Finance Private Limited (Veritas/originator).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts. Credit enhancement (CE) is available in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal to be provided by the originator, (ii) subordination of 12.74% of the initial pool principal for Series A1 PTC, (iii) the excess interest spread (EIS) of 34.80% in the structure, as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure, due diligence audit of the pool, review by ICRA of the documentation pertaining to the transaction, and the furnishing of a legal opinion on the transaction to ICRA by Veritas.

### Key rating drivers

#### Credit strengths

- Availability of CE in the form of EIS, principal subordination and CC
- No overdue contracts as on the cut-off date; all the contracts in the initial pool have never been delinquent
- Average seasoning of ~17 months and average pre-securitisation amortisation of ~19% as on the cut-off date

#### Credit challenges

- High geographical concentration with top 3 states contributing around 54% to the pool principal as on the cut-off date
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower

### Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables were assigned at par to the PTC investors. The interest on the PTC securities, at predetermined rates on the outstanding principal, is promised on a monthly basis while the principal is promised on the final scheduled maturity date (February 20, 2029).

During the tenure of Series A1 PTC, the collections from the pool, after making the promised interest payouts to Series A1 PTC, will be used to make the expected principal payouts to Series A1 PTC (not promised). Any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payout. A part of the residual cash flow from the pool (40% of the residual cash flows), after making the promised and expected payouts and the replenishment of the CE (to the extent used and not reimbursed till the previous month), would be used for the prepayment of the Series A1 PTC principal while the remaining part of residual cash flows (60% of the residual cash flow) would be passed on to the Originator. Hence, the actual tenure of the PTC is expected to be shorter owing to such acceleration.

Support for Series A1 PTC in the transaction is in the form of a principal subordination of 12.74% of the initial pool principal and an EIS of 34.80% of the initial pool principal. A CC of 5.00% of the initial pool principal (Rs. 5.73 crore), to be provided by Veritas, acts as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC (in case the principal subordination and EIS are insufficient) to meet the same.

There were no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is 16.8<sup>1</sup> months with pre-securitisation amortisation of 18.8% as on the cut-off date. The pool has high geographical concentration with the top 3 states (Tamil Nadu, Madhya Pradesh and West Bengal) contributing 54.1% to the initial pool principal amount. At the district level, the top district accounted for 2.9% of the initial pool principal amount while the top 10 districts accounted for 23.0%. The performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower.

### Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The mean and the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of the originator's loan portfolio. Given Veritas' limited track record in this business, ICRA has also considered the credit quality experience of other more established players and ICRA's expectation of the credit quality of the asset classes involved. Veritas' target borrower segment could be financially quite vulnerable. Also, while the underlying loans are backed by the mortgage of immovable property, the timing and quantum of recovery, post default, are yet to be established in the absence of a longer track record in security enforcement.

The resulting collections from the pool, after incorporating the impact of the losses and prepayments as above, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks for the target rating.

For the current pool, after taking into account the above-mentioned factors regarding the asset class and after adjusting for key features like seasoning, overdues, instalment to income ratio (IIR), ticket size, peak days past due, rate of interest, geographical distribution and credit bureau score, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 4.0-5.0%, with certain variability around it. The variability is based on the static pool analysis of Veritas' portfolio as well as ICRA's observation on the performance of the same asset class for other originators. ICRA's estimation of the variability also factors in Veritas' relatively shorter track record. The average prepayment rate for the underlying pool is estimated at 18% per annum.

### Liquidity position: Superior

The liquidity for the PTC instrument is superior after factoring in the CE available to meet the promised payout to the investors. The total CE would be more than 8 times the estimated loss in the pool.

### Rating sensitivities

**Positive factors** – Not applicable

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

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<sup>1</sup> Basis the number of instalments paid as shared by the originator

Weakening in the credit profile of the servicer could also exert pressure on the rating.

### Analytical approach

The rating action is based on the analysis of the performance of Veritas’ portfolio till December 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant’s know your customer (KYC) certificate
6. 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](http://www.icra.in).

### About the originator

Veritas Finance Private Limited (Veritas) is a non-banking financial company (NBFC), incorporated on April 30, 2015 and registered with the Reserve Bank of India (RBI). The company is promoted by Mr. D Arulmany and it lends to borrowers engaged in the micro, small and medium enterprise (MSME) sector. Its primary focus is on providing inclusive finance to self-employed borrowers for their businesses. As on December 31, 2023, Veritas had a net worth of Rs. 2,248 crore. As on December 31, 2023, it had 423 branches across 10 states, namely Tamil Nadu, West Bengal, Karnataka, Odisha, Andhra Pradesh, Telangana, Bihar, Jharkhand, Chhattisgarh and Madhya Pradesh, as well as the Union Territory (UT) of Puducherry.

Veritas had a gross loan portfolio of Rs. 5,046 crore as on December 31, 2023 (Rs. 3,534 crore as on March 31, 2023). The company has divided the MSME loan product segment into two broad heads – MSME Rural and MSME Urban, apart from home loans. MSME Rural consists of small business loans (SBLs) and home construction loans (HCLs) while MSME Urban is focussed on unsecured business loans meant for working capital purposes. The home loan (HL) segment focusses on affordable housing. These products are differentiated on the basis of the purpose of the loan, customer segment, etc.

MSME Rural is a secured loan product offered for business purposes with a ticket size of Rs. 1 lakh to Rs. 50 lakh and HCLs are given for home construction, home improvement or shop construction with a ticket size of Rs. 5 lakh to Rs. 25 lakh. HLs are given for purchase or self-construction with a ticket size in the range of Rs. 5 lakh to Rs. 30 lakh. MSME Urban is an unsecured product with a ticket size of Rs. 1 lakh to Rs. 5 lakh.

As on December 31, 2023, on a fully-diluted basis, the promoter (Mr. Arulmany) and his relatives held 11.70% while other shareholders include Norwest Venture Partners X (21.78%), Multiples PE and affiliates (16.38%), Kedaara Capital Fund II LLP (15.21%), Lok Capital and affiliates (11.33%), British International Investments Plc. (10.42%), Avendus Future Leaders Fund (2.34%), and Caspian Impact Investment Advisers Private Limited (0.19%). The balance is held by individual shareholders and employees and their relatives.

### Key financial indicators

Veritas Finance Private Limited	FY2022	FY2023	9M FY2024
	Audited	Audited	Unaudited*
<b>Total income</b>	443.65	682.21	792.17
<b>PAT</b>	75.85	174.70	165.82
<b>Assets under management (AUM)</b>	2,187.35	3,533.73	5,046.30
<b>Gross NPA</b>	3.94%	2.19%	1.86%
<b>Net NPA</b>	2.34%	1.26%	1.05%

\*Subject to limited review

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

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
				Mar 22, 2024*	-	-	-
<b>Vajra 008 Trust</b>	Series A1 PTC	100.00	100.00	<b>Provisional [ICRA]AAA(SO)</b>	-	-	-

\*Provisional rating assigned

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	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 Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Vajra 008 Trust	Series A1 PTC	March 2024	9.75%	February 2029	100.00	Provisional [ICRA]AAA(SO)

*\*Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

*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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For more information, visit [www.icra.in](http://www.icra.in)

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