

March 26, 2024

Vedika Credit Capital Ltd: Provisional [ICRA]A-(SO) assigned to PTC Series A1 issued by Apollo 2024, backed by a pool of microfinance loan receivables

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Apollo 2024	PTC Series A1	50.68	Provisional [ICRA]A-(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 Provisional rating to the pass-through certificates (PTCs) Series A1 issued by Apollo 2024. The PTCs are backed by a microfinance loan receivables originated by Vedika Credit Capital Ltd (Vedika) with an aggregate principal outstanding of Rs. 55.70 crore (pool receivables of Rs 69.57-crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 11.00% of the pool principal to be provided by the originator, (ii) subordination of 9.00% of the pool principal for PTC Series A1, (iii) excess interest spread (EIS) of 13.76% in the structure for PTC Series A1; 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

- Availability of CE in the form of EIS, subordination and CC
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- Geographically concentrated pool at state level with top 3 states accounting for 71.15% of the 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 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 first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation of 9.00% of the pool principal and the entire EIS. Further credit support is available in the form of an EIS of 13.76% and a CC of 11.00% of the initial pool principal (i.e. Rs. 6.13 crore) to be provided by Vedika.

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 were 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 71.15% of the pool principal. The pool consists of monthly paying loan contracts, with relatively low weighted average seasoning (~3 months) and pre-securitisation amortisation (12.58%). 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 fresh disruptions that may arise due to any unforeseen macro-economic shock.

Performance of past rated pools: ICRA has rated eight standalone PTC transactions of Vedika in the past, including two which have matured. The live pools had a cumulative collection efficiency of 100% with nil CC utilisation as per the February 2024 payouts.

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 4.25-5.25%, 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

The liquidity for PTC Series A1 is strong after factoring in the CE available to meet the promised payouts to the investor. The total CE is 5.95 times the estimated loss in the pool.

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 CE 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 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 analysis of the performance of Vedika’s 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	
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. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Auditor's 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.

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. Vedika 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 engaged 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 purchasers were carrying out financing activities under the sole proprietorship form of business. All the business, thereafter, was diverted to Vedika. Since 2007, the company provides microfinance products like joint liability group loans and individual loans. The assets under management (AUM) on the books stood at Rs. 818.59 crore in 9M FY2024.

Key financial indicators

	FY2020	FY2021	FY2022	FY2023	9MFY2024
	Audited	Audited	Audited	Audited	Provisional
Total income	123.48	106.19	112.87	166.60	157.06
Profit after tax	-17.16	4.71	23.25	17.01	16.82
Total assets	530.24	435.52	758.92	918.48	1044.41
Gross Stage 3	1.81%	2.21%	2.01%	0.89%	0.74%
CRAR	18.90%	31.62%	20.05%	22.56%	22.41%

Source: ICRA Research; Amount in Rs. crore and ratios are as per ICRA's calculations

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			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					March 26, 2024	-	-	-
1	Apollo 2024	PTC Series A1	50.68	50.68	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
Apollo 2024	PTC Series A1	March 2024	13.25%	January 2026	50.68	Provisional [ICRA]A- (SO)

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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