

April 04, 2024

Veritas Finance Private Limited: Rating confirmed as final for 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	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In March 2024, ICRA had assigned a provisional rating to the Series A1 pass-through certificates (PTC) issued by Vajra 008 Trust under a securitisation transaction originated by Veritas Finance Private Limited (VFPL). The PTCs are backed by a mixed pool of small business loan (SBL) and home construction loan (HCL) receivables originated by VFPL with an aggregate principal outstanding of Rs 114.60-crore (pool receivables of Rs 169.31-crore). 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.

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of excess interest spread (EIS), principal subordination and cash collateral (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 three 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. 5.73crore), 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 was 16.8¹ months with pre-securitisation amortisation of 18.8% as on the cut-off date. The pool had 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 co-efficient 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 credit quality for 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 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 and geographical distribution, ICRA estimates the shortfall in 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 greater 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. Weakening in the credit profile of the servicer could also exert pressure on the rating.

¹ Basis the number of instalments paid as shared by the originator

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 credit enhancement cover available in the transaction.

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

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*
Total income	443.65	682.21	792.17
PAT	75.85	174.70	165.82
Assets under management (AUM)	2,187.35	3,533.73	5,046.30
Gross NPA	3.94%	2.19%	1.86%
Net NPA	2.34%	1.26%	1.05%

*Subjected 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 (FY2025)		Chronology of Rating History for the Past 3 Years			
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
Vajra 008 Trust	Series A1 PTC	100.00	100.00	Apr 04, 2024 [ICRA]AAA(SO)	Mar 22, 2024 Provisional [ICRA]AAA(SO)	-	-

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

ISIN No.	Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
INE0UQO15015	Vajra 008 Trust	Series A1 PTC	March 2024	9.75%	February 2029	100.00	[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:

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