

May 23, 2024

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

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Felix 2024	PTC Series A1	40.53	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In February 2024, ICRA had assigned a provisional rating to the PTC Series A1 issued by Felix 2024 under a securitisation transaction originated by Vedika Credit Capital Ltd (Vedika). The PTCs are backed by a micro finance loan receivables originated by Vedika with an aggregate principal outstanding of Rs 44.54-crore (pool receivables of Rs 55.07-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 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 76.21% share as on the cut-off date
- 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

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 13.30% and a CC of 11.00% of the initial pool principal (i.e. Rs. 4.90 crore) 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 76.21% of the pool principal. The pool consists of monthly paying loan contracts,

with relatively low weighted average seasoning (~4months) and pre-securitisation amortisation (12.6%). 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.

Past rated pools performance: ICRA has rated eight standalone PTC transactions of VCCL in the past, including six which have matured. The live pools had 100% cumulative collection efficiency with nil CC utilisation as per the April 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 4.5-5.5% 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: Strong for PTC Series A1

The liquidity for PTC Series A1 is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is ~5.75 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 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. For 9MFY2024, AUM on book stood at Rs. 818.59 crore

Key financial indicators

Particulars	FY2021	FY2022	FY2023	9MFY2024
	(Audited)	(Audited)	(Audited)	(Provisional)
Total income	106.19	112.87	166.60	157.06
Profit after tax	4.71	23.25	17.01	16.82
Total Assets	435.52	758.92	918.48	1044.41
%CRAR	31.62%	20.05%	22.56%	22.41%
GS3 (Gross Stage 3 NPA)	2.21%	2.01%	0.89%	0.74%

Amount in Rs. crore

Source: Company's financial statements, ICRA Research

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 (FY2025)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					May 23,2024			
1	Felix 2024	PTC Series A1	40.53	40.53	[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	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Felix 2024	PTC Series A1	February 2024	13.25%	September 2025	40.53	[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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sumit Pramanik

+91 22 6114 3462

sumit.pramanik@icraindia.com

Sheetal Nayak

022-61143440

sheetal.nayak@icraindia.com

Tina Parekh

+91 22 6114 3455

tina.parekh@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

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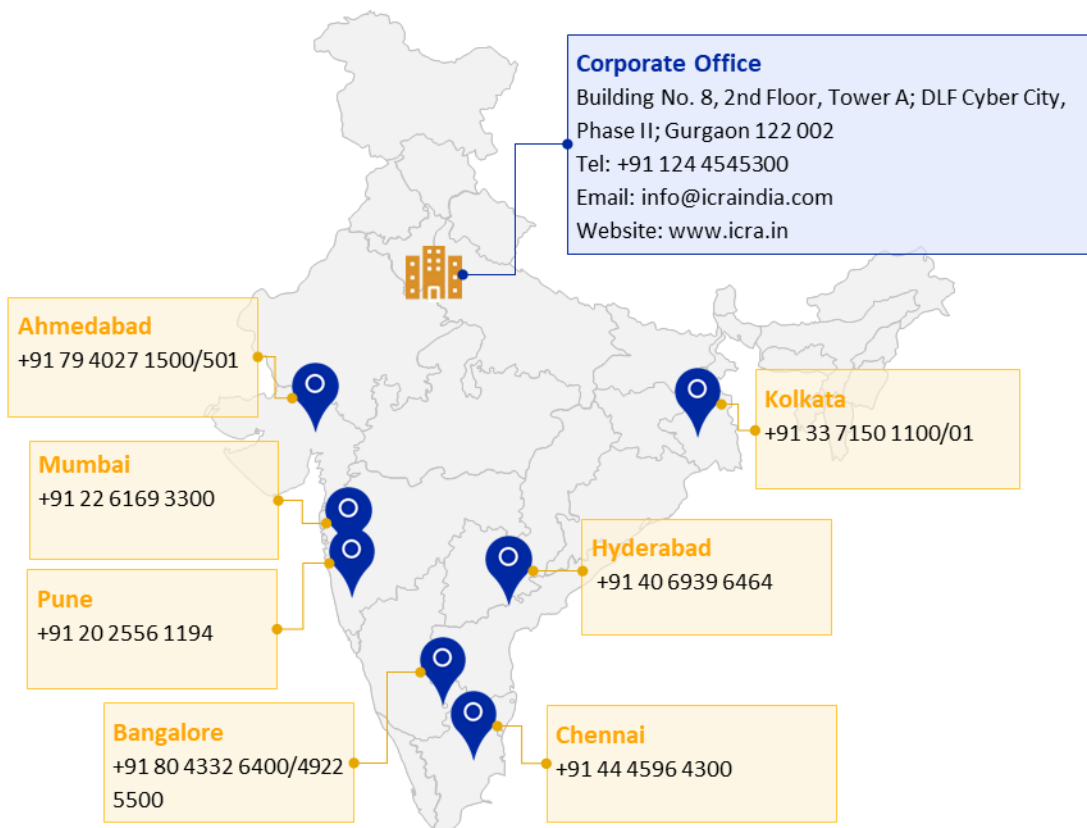
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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