

January 24, 2025^(Revised)

Vedika Credit Capital Ltd: Provisional [ICRA]A-(SO) assigned to PTC Series A1 backed by a pool of microfinance loan receivables issued by HERA 2025

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
HERA 2025	PTC Series A1	76.75	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

The pass-through certificates (PTCs) are backed by a pool of microfinance loan receivables originated by Vedika Credit Capital Ltd (Vedika/Originator) with an aggregate principal outstanding of Rs. 85.27 crore (pool receivables of Rs. 104.02 crore). Vedika would also act as the servicer in the transaction.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available 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 and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The residual cash flow available, after making the promised and expected payments, shall flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 10.00% of the initial pool principal, amounting to Rs. 8.53 crore, to be provided by the Originator, (ii) subordination of 10.00% of the initial pool principal for PTC Series A1, and (iii) the excess interest spread (EIS) of 12.64% of the initial pool principal for PTC Series A1.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 14,383 contracts, with no contract exceeding 1% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool- The pool has been filtered in such a manner that there are no overdue contracts as on the cut-off date. Further, none of the contracts in the pool have ever been delinquent, which is a credit positive.

Servicing capability of Vedika – The company has adequate processes for servicing of the loan accounts in the securitised pool. It has demonstrated long track record of regular collections and recovery across geography and multiple economic cycles.

Credit challenges

High geographical concentration- The pool has high geographical concentration with the top 3 states, viz. Bihar, Jharkhand and West Bengal, contributing ~89% to the initial pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Risk associated with lending business - The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The performance of microfinance loans would also be exposed to political and communal risks.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation 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 assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.50%, with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 3.00% to 9.00% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Liquidity position: Strong

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 ~6.00 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 credit enhancement 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 credit enhancement 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 September 2024, 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	
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 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 stockbroking 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. As of H1FY2025, the company's AUM stood Rs. 1,412 crore.

Exhibit 1: Key financial indicators

	FY2023	FY2024	H1FY2025
	(Audited)	(Audited)	(Provisional)
Total income	166.6	229.2	124.5
PAT	17.0	27.9	17.9
Total Managed Asset	1,260.7	1,645.1	1,733.8
CRAR	22.6%	23.5%	30.6%
Gross stage 3	0.9%	0.7%	1.6%

Source: ICRA research; All values (in Rs. crore) and ratios are as per ICRA calculation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No	Trust Name	Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
			Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					January 24, 2025	-	-	-
1	HERA 2025	PTC Series A1	76.75	76.75	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 (p.a.p.m.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
HERA 2025	PTC Series A1	January 21, 2025	13.00%	November 10, 2026	76.75	Provisional [ICRA]A-(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

Corrigendum:

Document dated 24th January 2025 has been added with the revision below:

1.Instrument details: -Date of Issuance/sanction

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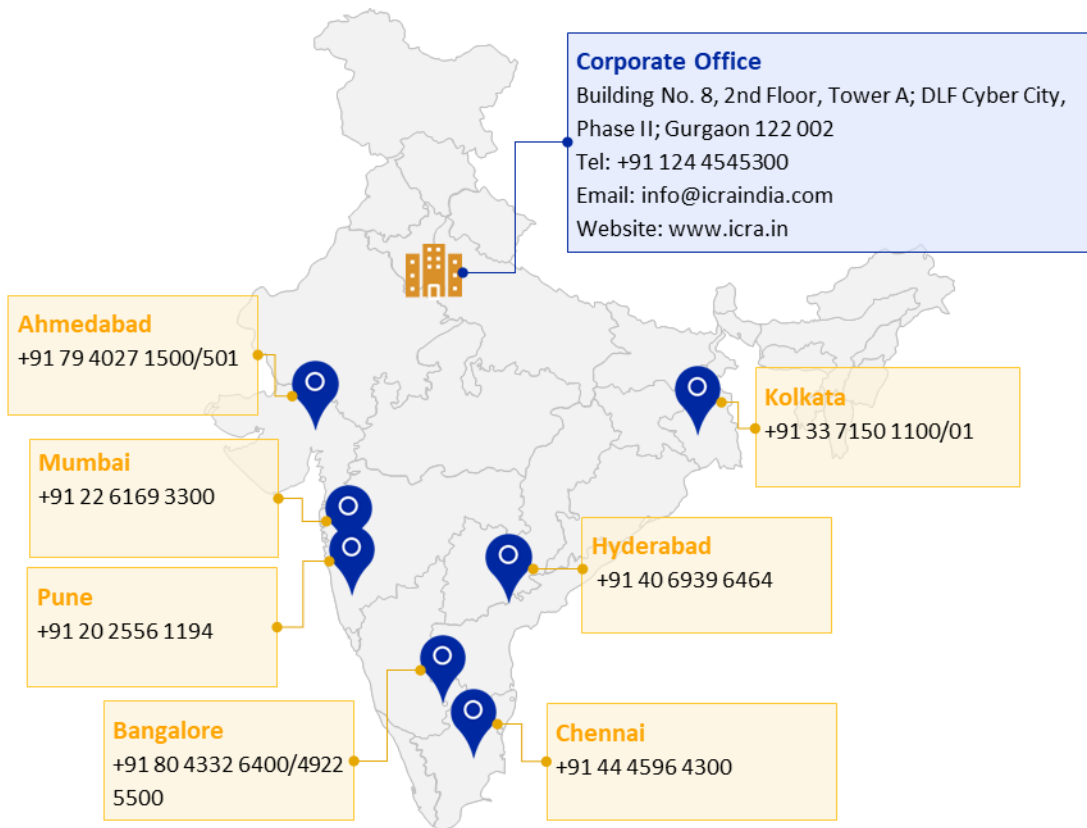
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