Press Release

Vedika Credit Capital Limited (VCCL)

July 09, 2024

Ratings

Instrument / Facility	**Amount (Rs. crore)**	**Current Ratings**	**Previous Ratings**	**Rating Action**	**Complexity Indicator**
Long Term Fund Based Bank Facilities – Term Loans	599.52 (decreased from 790.43)	IVR A-/ Stable (IVR A Minus with stable outlook)	IVR A-/ Stable (IVR A Minus with stable outlook)	Reaffirmation	Simple
Proposed Long Term Fund Based Bank Facilities – Term Loans	500.48 (Increased from 309.57)	IVR A-/ Stable (IVR A Minus with stable outlook)	IVR A-/ Stable (IVR A Minus with stable outlook)	Reaffirmation	Simple
Proposed Long Term Fund Based Bank Facilities – Term Loans	300.00	IVR A-/ Stable (IVR A Minus with stable outlook)	-	Assigned	Simple
Non-Convertible debentures (NCDs)	22.90	IVR A-/ Stable (IVR A Minus with stable outlook)	IVR A-/ Stable (IVR A Minus with stable outlook)	Reaffirmation	Simple
Non-Convertible debentures (NCDs)	25.00	IVR A-/ Stable (IVR A Minus with stable outlook)	IVR A-/ Stable (IVR A Minus with stable outlook)	Reaffirmation	Simple
Proposed Non-Convertible Debentures (NCDs)	27.10 (decreased from 52.10)	IVR A-/ Stable (IVR A Minus with stable outlook)	IVR A-/ Stable (IVR A Minus with stable outlook)	Reaffirmation	Simple
Proposed Non-Convertible Debentures (NCDs)	200.00	IVR A-/ Stable (IVR A Minus with stable outlook)	-	Assigned	Simple
Total	**1,675.00 (Rupees One Thousand Six Hundred Seventy-Five Crore Only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The rating assignment/reaffirmation to the enhanced bank loan facilities and NCDs of Vedika Credit Capital Limited (VCCL) continues to derive comfort from healthy asset quality, comfortable capitalisation, improved financial profile, adequate systems and processed and experienced management. However, the ratings are constrained by highly leveraged capital structure, geographical concentration risk and inherent risks associated with MFI Industry coupled with intense competition.

Outlook is stable on account of consistent improvement in the overall financial profile of the company and expected growth in AUM in the near to medium term.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in AUM while maintaining healthy capitalisation, profitability and asset quality.

Downward Factors

- Adverse movements in collection efficiency resulting in increased credit costs.
- Substantial deterioration in AUM levels, profitability, capitalisation levels, liquidity and asset quality.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Healthy asset quality

VCCL's asset quality remained healthy with GNPA remained low and at 0.73% as on March 31st 2024 (0.89% as on March 31st 2023) ; while NNPA remained NIL for both periods as VCPL has a policy of providing entire GNPA. VCCL though remains exposed to risks associated with the MFI business, was able to maintain healthy asset quality given its stringent credit appraisal process and loan monitoring systems. VCCL's ability to sustain the asset quality in the new originations and maintain field discipline will be important from a credit perspective. VCCLs collection efficiency remained healthy with average collection efficiency remaining at 99% during FY24 (refers to period April 1st, 2023, to Mar 31, 2024).

Comfortable capitalisation with proven track record of capital raising by promoters.

VCCL has maintained a comfortable capital adequacy ratio (CAR) over the years. CAR remained comfortable and at 23.47% as on March 31, 2024 (March 31, 2023:22.56%). During FY24, the promoters have infused fresh equity aggregating to Rs. 20.18 crore coupled with retention of profits, VCCL has been able to maintain comfortable capitalisation. Moreover, the promoters plan to raise funds to the tune of Rs 76.00 crore in FY25 through dilution of promoters' stake, of which the promoters have already raised Rs 50.22 crore in Q1FY25.

Improved financial profile.

VCCLs AUM has consistently grown over the years and is at Rs 1,379.50 crore at the end of FY24 (Rs 1,097.12 crore in FY23) which includes Rs 928.39 crore of own book portfolio and Rs 451.11 crore of managed loan book. For FY24, company reported net interest income of Rs 91.84 crore and PAT of Rs 27.86 crore when compared to net interest income of Rs 68.96 crore and PAT of Rs 17.01 crore. NIM remained healthy at 11.11% for FY24 (10.43% for FY23).

Adequate systems and processes

VCCL has installed good tracking and MIS systems, which are adequate to support future growth expansion. Further, the company has installed monitoring systems to ensure credit bureau checks and loan utilisation checks being conducted in all cases. Further, VCCL has invested significantly in technology to ensure the real-time availability of collection data, e-verification of customer details and cashless disbursements. Internal audits are conducted regularly, and the scope and coverage are in line with industry practices.

Experienced and professional management team

The promoters are engaged into the microfinance business since 2007. Presently, VCCL is managed by a seven-directors governing body headed by Mr. Ummed Mal Jain (Chairman) and his son Mr. Gauta, Jain (Managing Director) who are having more than three decades of experience in the financing and MFI sector. Besides, all the governing body members are well versed with the intricacies of the business operation of microfinance and NBFC.

Key Rating Weaknesses

Highly leveraged capital structure

Despite regular equity infusion, majority of the growth is funded by external debt which has resulted in leveraged capital structure. VCCLs overall gearing remains high at 4.60x as on 31 March 2024 (4.71x as on 31 March 2023). Going forward reducing the gearing levels will be a key rating monitorable.

Geographical concentration risk

VCCL is exposed to geographical concentration risk with top three states contributing to more than 50% of total loan portfolio. West Bengal contributes to ~35% of loan book followed by Bihar which contributes to ~20% and Jharkhand which contributes to ~11% of loan book. Hence, the operations are geographically concentrated.

Inherent risks associated with MFI industry coupled with intense competition.

Even though VCCL has ventured into MSME lending, its product diversification remains low with the concentration primarily being in the microfinance segment. Also, the company's portfolio remains relatively risky, given the unsecured nature of the same. Unsecured lending to the marginal borrower profile and the political and operational risks associated with microlending may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political and operational risks, which could negatively impact the company's operations and thus its financial position as has been seen during the pandemic coupled with severe competition by other NBFCs and Banks.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Non-Banking Finance companies]

[Criteria of assigning Rating Outlook.](#)

[Complexity level of rated instruments/Facilities](#)

[Financial Ratios & Interpretation (Financial Sector)](#)

[Policy on Default Recognition and Post-Default Curing Period](#)

Liquidity: Strong

VCCLs liquidity remains strong given the lower tenure of loans extended when compared to long tenured loans availed. As on 31 March 2024, VCCL has an adequately matched ALM profile with no negative cumulative mismatches across all the buckets. Also, the company has cash and bank balance of Rs 107.49 crore, unmarked FDs of Rs 11.47 crore and unutilised bank facilities of Rs 30.00 crore, which provides additional liquidity cushion.

About the company

VCCL is a Non-Banking Financial Company – Microfinance Institution (NBFC-MFI) registered under Reserve Bank of India (RBI). It started its microfinance on-lending operation in the year 2007 with its head office in Ranchi (Jharkhand), by providing small ticket size loan to poor woman in rural and semi-urban area through Joint Lending Group (JLG) based system and MSME loans.

VCCL is now working with 192 branches spread over 94 districts in seven states, West Bengal, Assam, Bihar, Jharkhand, Odisha, Tripura and Uttar Pradesh, where they are providing services to more than 3,87,000 clients.

Beside direct lending, the company entered into a partnership to work as a Business Correspondence (BC) with Fincare Small Finance Bank, MAS Financial Services Limited, SIDBI, IDBI, IDFC First Bank and Reliance Commercial Finance Ltd wherein VCCL manages the entire micro finance operation for designated areas on behalf of banks/FI's for a certain fee income.

Financials (Standalone)*:

Rs in crore

For the year ended/As on*	31-03-2023	31-03-2024
	(Audited)	(Audited)
Total Income	166.59	229.21
PAT	17.01	27.86
Tangible Networth	156.23	205.06
AUM	1097.12	1379.50
Ratios		
NIM (%)	10.43	11.11
ROTA (%)	2.03	2.66
Interest Coverage (Times)	1.28	1.32
Total CAR (%)	22.56	23.47
Gross NPA [Stage III] (%)	0.89	0.73

***Classification as per Infomerics' standards**

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years				
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2024-25 – (17 June 2024)	Date(s) & Rating(s) assigned in 2023-24 – (22 December 2023)	Date & Rating(s) assigned in 2023-24 (05 October 2023)	Date(s) & Rating(s) assigned in 2022-23 (31 March 2023	Date(s) & Rating(s) assigned in 2021-22 (12 October 2022)
1.	Fund Based - Bank Loan Facilities – Term Loans	Long Term	599.82	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable
2.	Proposed Fund Based -Bank	Long Term	500.48	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable	-	-

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years				
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2024-25 – (17 June 2024)	Date(s) & Rating(s) assigned in 2023-24 – (22 December 2023)	Date & Rating(s) assigned in 2023-24 (05 October 2023)	Date(s) & Rating(s) assigned in 2022-23 (31 March 2023	Date(s) & Rating(s) assigned in 2021-22 (12 October 2022)
	Loan Facilities – Term Loans								
3.	Proposed Fund Based -Bank Loan Facilities – Term Loans		300.00	IVR A-/Stable	-	-	-	-	-
4.	Non-Convertible Debentures	Long Term	22.90	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable	-	-	-
5.	Non-Convertible Debentures	Long Term	25.00	IVR A-/Stable	-	-	-	-	-
6.	Proposed Non-Convertible Debentures	Long Term	27.10	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable	-	-	-
7	Proposed Non-Convertible Debentures	Long Term	200.00	IVR A-/Stable	-	-	-	-	-
8.	Issuer rating	-	-	-	Withdrawn	IVR A-/Stable	-	-	IVR A-/Stable

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	ISIN	Date of Issuance	Coupon Rate	Tenor/ Maturity	Size of Facility (Rs. crore)	Listing status	Rating Assigned/ Outlook
Long Term – Fund Based -	-	-	-	Upto Sep 2028	599.82	NA	IVR A-/Stable

Bank Facility – Term Loans							
Proposed Long Term – Fund Based – Bank Facility – Term Loans	-	-	-	NA	500.48	NA	IVR A-/Stable
Proposed Long Term – Fund Based – Bank Facility – Term Loans	-	-	-	NA	300.00	NA	IVR A-/Stable
Non-Convertible Debentures	INE04HY07021	8 Apr 2022	11.42	8 Dec 2025	22.90	Unlisted	IVR A-/Stable
Non-Convertible Debentures	INE04HY07096	27 Mar 2024	13.50	28 Sep 2025	25.00	Listed	IVR A-/Stable
Proposed Non-Convertible Debentures	NA	NA	NA	NA	27.10	NA	IVR A-/Stable
Proposed Non-Convertible Debentures	NA	NA	NA	NA	200.00	NA	IVR A-/Stable

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Vedika-Credit-9july2024.pdf

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Covenants for NCD of Rs 22.90 crore:

Name of the Instrument		Detailed Explanation
Non-Convertible Debentures (ISIN: INE04HY07021)	**Financial Covenant**	1.The Capital Adequacy Ratio shall be always compliant with minimum levels stipulated by the regulator (“RBI”) at all points in time. 2. The TOL/TNW shall not be more than 10 times 3. The Gross NPA shall be less than 4.5% 4. The Net NPA shall be less than 2.5%

		All covenants would be tested on quarterly basis for the Company, i.e. as on 31st March, 30th June, 30th September and 31st December every year, on consolidated and standalone balance sheet till the redemption of the Debentures. The covenants shall be certified by the Company within 45 (Forty-Five) calendar days from the end of each financial half year.
	Non-Financial Covenant	The Issuer shall not without the prior written permission of the Debenture Holder and Debenture Trustee, do or undertake to do any of the following: a) Formulate any scheme of amalgamation or reconstitution b) Undertake guarantee obligations on behalf of any other Company / Firm etc., except in the ordinary course of business and for its subsidiaries if any. c) Declare dividends for any year out of profits relating to the year if any of the financial commitments to Debenture Holder have not been duly met d) Withdraw funds from the business out of the profits relating to the year if any of the financial commitments to Debenture holder have not been duly met e) Sell, assign, mortgage or otherwise dispose off any of the assets charged to Debenture Holder so as the security cover does not fall below 1.25x f) Change in promoter, ownership or control more than 10%. g) Issuer shall not amend or modify clauses in its
	Rating covenants	In case the rating is downgraded to BBB from BBB+ then an additional 0.25% p.a would be payable on the NCDs from the date of downgrade. It is clarified the additional step up coupon would be payable only till the rating of the Company remains below BBB+ rating and shall not be charged if the rating is restored to the original level or higher level by respective rating agencies. PROVIDED THAT, the decreased rate of Interest in accordance with this provision cannot, in any case, be lower than the Interest Rate fixed at the time of issuance. However, the bank shall have a right of call for early redemption at par in case the ratings fall by two notches from current rating of A- .(“Recall Option”) The Recall option shall be exercised at PAR, with a prior notice of 30 calendar days to the Issuer.

		For the purpose of this clause, if the issue is rated by more than one agency, then the lowest of the ratings shall be considered
	Events of Default	Customary for financings of this nature and others appropriate in the judgment of the Debenture Holders, including but not limited to: 1. Non-payment of any of the dues under this Issuance, 2. Issuer is unable or admits in writing its inability to pay its debts as they mature or suspends making payment of any of its debts, by reason of actual or anticipated financial difficulties or proceedings for taking it into liquidation have been admitted by any competent court or a moratorium or other protection from its creditors is declared or imposed in respect of any indebtedness of the Company; 3. Insolvency, winding up, liquidation 4. Creditors' processes initiated against the company a. If initiated by a creditor that is not a lender / debt investor, cure period of 90 days 5. Repudiation of Transaction Documents by the Issuer 6. Cessation of business 7. All or a material part of the undertaking, assets, rights or revenues of the Company are condemned, seized, nationalised, expropriated or compulsorily acquired, or shall have assumed custody or control of the business or operations of the Company, or shall have taken any action for the dissolution of the Company, or any action that would prevent the Company, their member, or their officers from carrying on their business or operations or a substantial part thereof, by or under the authority of any Government or Government authority;

Covenants for NCD of Rs 25.00 crore:

Name of the Instrument		Detailed Explanation
Non-Convertible Debentures (ISIN: INE04HY07096)	**Financial Covenant**	i) The capital adequacy ratio shall always be compliant with minimum levels stipulated by RBI at all points in time. ii) The D/E shall not be more than 5.25 times. iii) The gross NPA shall be less than 4.5% iv) The net NPA shall be less than 2.5% All the above covenants to be tested on quarterly basis

	Non-Financial Covenant	The issuer shall not without the prior written permission of the debenture holder and debenture trustee, do or undertake to do any of the following: i) Formulate any scheme of amalgamation or reconstitution. ii) Undertake guarantee obligations on behalf of any other company/firm etc., except in case of ordinary course of business and for its subsidiary, if any; iii) Declare dividends for any year out of profits relating to the year if any of the financial commitments to debenture holders have not been duly met; iv) Withdraw funds from the business out of the profits relating to the year if any of the financial commitments to debenture holders have not been duly met; v) Sell, assign, mortgage or otherwise dispose off any of the assets charged to the debenture holder so as the security cover does not fall below 1.25x vi) Change in promoter, ownership or control of more than 10% vii) Issuer shall not amend or modify clauses of memorandum of association or articles of association, where such amendment would have a material adverse impact without prior consent of the debenture holder.
	Events of Default	Customary for financings of this nature and others appropriate in the judgment of the Debenture Holders, including but not limited to: 1. Non-payment of any of the dues under this Issuance, 2. Issuer is unable or admits in writing its inability to pay its debts as they mature or suspends making payment of any of its debts, by reason of actual or anticipated financial difficulties or proceedings for taking it into liquidation have been admitted by any competent court or a moratorium or other protection from its creditors is declared or imposed in respect of any indebtedness of the Company; 3. Insolvency, winding up, liquidation 4. Creditors' processes initiated against the company a. If initiated by a creditor that is not a lender / debt investor, cure period of 90 days

		5. Repudiation of Transaction Documents by the Issuer 6. Cessation of business 7. Rating downgraded below BBB- 8. All or a material part of the undertaking, assets, rights or revenues of the Company are condemned, seized, nationalised, expropriated or compulsorily acquired, or shall have assumed custody or control of the business or operations of the Company, or shall have taken any action for the dissolution of the Company, or any action that would prevent the Company, their member, or their officers from carrying on their business or operations or a substantial part thereof, by or under the authority of any Government or Government authority;
	Rating covenants	In case of rating downgrade to BBB+ then an additional coupon of 0.25% p.a. would be payable from the date of downgrade. However, the investor shall have a right of call for early redemption at PAR in case rating gets downgraded to BBB. (Recall option). Recall option should be exercised with prior notice of 15 days.

Indicative term sheet for proposed NCDs: For proposed NCDs of Rs 27.10 crore and Rs 200.00 crore.

Issuer	**Vedika Credit Capital Ltd**
Instrument	Secured, Non-Convertible, Redeemable, Taxable, Regular Return Bonds of **Vedika Credit Capital Ltd**
Mode of Issue	Private Placement
Issue Size	Up to Rs 250.00 crore
Face Value	Rs. 1,00,000 (One Lakhs Per Bond)
Minimum Subscription	Rs. 1,00,000 and in multiples of 1 bond thereafter
Tenor	Upto 5 years
Put / Call option	N.A.
Coupon Rate	To be decided Approx 10.50% - 13.00%
Coupon Type	Fixed
Interest Payment	Monthly/Quarterly/Annually
Coupon Reset	Not Applicable
Day Count Basis	Actual
Financial Covenants	i) The Capital Adequacy Ratio shall be always compliant with minimum levels stipulated by the regulator (“RBI”) at all points in time. ii) The TOL/TNW shall not be more than 10 times. iii) The Gross NPA shall be less than 4.5% iv) The Net NPA shall be less than 2.5%

	(All covenants would be tested on quarterly basis for the Company, i.e. as on 31st March, 30th June, 30th September and 31st December every year, on consolidated and standalone balance sheet till the redemption of the Debentures.)
Non-Financial Covenants	The Issuer shall not without the prior written permission of the Debenture Holder and Debenture Trustee, do or undertake to do any of the following: a) Formulate any scheme of amalgamation or reconstitution. b) Undertake guarantee obligations on behalf of any other Company / Firm etc., except in the ordinary course of business and for its subsidiaries if any. c) Declare dividends for any year out of profits relating to the year if any of the financial commitments to Debenture Holder have not been duly met. d) Withdraw funds from the business out of the profits relating to the year if any of the financial commitments to Debenture holder have not been duly met. e) Sell, assign, mortgage or otherwise dispose off any of the assets charged to Debenture Holder so as the security cover does not fall below 1.25x f) Change in promoter, ownership or control more than 10%. The Issuer shall not amend or modify clauses in its Memorandum of Association and Article of Association, where such amendment would have a Material Adverse Effect as defined earlier, without prior consent of the Debenture Trustee. h) Any sale of assets/business/division that has the effect of exiting the business or re-structuring of the existing business, to be with the prior consent of the debenture holder. i) Acquisition or event of the Business Restructuring of the issuer including but not limited to any scheme of merger demerger amalgamation slump sale of assets arrangement with creditors or lenders compromise or. Undertake any new major new business outside financial services or any diversification of its business outside financial services without approval of NCD holders.

Annexure 4: List of companies considered for consolidated analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.