



## Press Release

### VFS Capital Limited (VFSCCL)

**September 25, 2024**

#### Ratings

Instrument Facility /	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Fund Based - Long Term Bank Facilities – Term Loans	679.58 (Increased from 619.50)	IVR A-/ Stable (IVR A Minus; with Stable Outlook)	IVR A-/ Stable (IVR A Minus; with Stable Outlook)	Reaffirmed	<a href="#">Simple</a>
Proposed Fund Based - Long Term Bank Facilities	420.42 (Decreased from Rs 480.50 crore)	IVR A-/ Stable (IVR A Minus; with Stable Outlook)	IVR A-/ Stable (IVR A Minus; with Stable Outlook)	Reaffirmed	<a href="#">Simple</a>
<b>Total</b>	<b>1,100.00</b> <b>Rupees One Thousand One Hundred Crore Only</b>				

**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

Infomerics ratings has reaffirmed its ratings assigned to the bank loan facilities of VFS Capital Limited (VFSCCL) as it continues to derive comfort from comfortable capitalisation, improved financial profile, stable asset quality and experienced management team. However, the ratings are constrained by geographical concentration and inherent risks associated with MFI Industry coupled with intense competition.

The 'Stable' outlook indicates sustained improvement in scale of operations and profitability. IVR believes VFSCCL's will continue to grow its loan book on the back of comfortable capitalisation and established track record.

#### Key Rating Sensitivities:

#### Upward Factors



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- Substantial and sustained growth in AUM with geographical diversification 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

##### Comfortable capitalisation

VFSCS has maintained a comfortable capitalisation as reflected by CRAR of 25.97% for FY24 (refers to period April 1st, 2023, to Mar 31, 2024) (25.00% for FY23), tangible Networth of Rs 204.76 crore (Rs 181.94 Crore in FY23) and gearing of 2.94x (FY:3.65x) as on March 31, 2024. Networth has increased on account of plough back of profits driven by improved profitability. Total CRAR stood at 25.21% as on 30 June 2024.

##### Improved financial profile.

VFSCS's AUM has consistently grown over the years and is currently at Rs 942.30 Crore (Rs 935.65 Crore in FY23) which includes Rs 669.07 Crore of own book portfolio, Rs 218.82 Crore of BC portfolio and Rs 54.41 Crore of managed loan book. For FY24, company reported total income of Rs 178.85 Crore and PAT of Rs 22.94 crore when compared to total income of Rs 169.05 crore and PAT of Rs 14.01 Crore for FY23. Total income and PAT stood at Rs 49.86 crore and 2.77 crore respectively in Q1FY25. NIM remained healthy at 9.83% for FY24 (FY23:10.93%).

However, AUM growth stagnated in FY24 due to conscious decision taken by the company to slow down disbursements as there were general elections held in many of the states where they operate, socio-political crisis in Assam and the changed regulations from the



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regulator on the household income levels of the borrowers. Hence, the management focussed more on collections which is reflected in the improved collection efficiency. The reduction in NIM was due to increased finance costs in FY24.

### **Stable asset quality**

VFSCCL has managed to keep its collection efficiency around 98% in the last one year ending March 2024. VFSCCL though remains exposed to risks associated with the MFI business, was able to maintain stable asset quality given its stringent credit appraisal process and loan monitoring systems. The GNPA decreased to 2.20% in FY24 from 2.76% in FY23, and further to 2.11% in Q1FY25. However, NNPA for FY24 and Q1FY25 was nil as the company provided 100% provisioning. VCCL's ability to sustain and improve the asset quality amidst growing AUM and maintain field discipline will be key rating monitorable.

### **Experienced Management team**

VFSCCL promoters are engaged in the microfinance business since 2006 and have received NBFC-MFI registration from RBI in September 2013. Presently, VFSCCL is managed by six directors governing body headed by Mr. Ajit Kumar Maity (Chairman) and Mr. Kuldeep Maity (Managing Director and CEO). Mr. Ajit Kumar Maity has an experience of around four decades while Mr. Kuldeep Maity has an experience of over two decades in the microfinance sector. The directors are supported by a team of experienced and qualified personnel in managing the day-to-day operations of the company.

### **Key Rating Weaknesses**

#### **Geographical concentration risk**

Despite VFSCCL operating in 15 states across India, it is exposed to geographical concentration risk with West Bengal contributing to ~71% of AUM as on 31 March 2024. Going forward, the ability of the company to reduce its exposure in West Bengal and uniformly grow its AUM across all states will be a key rating monitorable.

**Inherent risks associated with MFI industry coupled with intense competition.**



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VFSCs 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 Financial Institutions/Non-Banking Finance companies](#)

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

[Criteria of assigning Rating Outlook.](#)

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

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

**Liquidity:** Adequate

VFSCs liquidity remains adequate given the lower tenure of loans extended when compared to long tenured loans availed. As on 30 June 2024, VFSC has adequately matched ALM profile with no negative cumulative mismatches across all the buckets. Also, the company has cash and bank balance of Rs 38.27 crore and sanctions in hand of Rs 65.50 crore, which provides additional liquidity cushion as on 30 June 2024.

**About VFS Capital Limited**

Incorporated in June 1994, VFS Capital Ltd. (VFSC; formerly known as Village Financial Services Ltd.) is a Kolkata, West Bengal based NBFC- MFI. It started microfinance activity in 2006 and got registered with RBI as NBFC-MFI in September 2013. VFSC provides



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financial services to poor women for income generation activities. It operates through Joint Liability Group (JLG) lending model. Beside direct lending, the company had also entered into a partnership to work as a Business Correspondence (BC) with various banks and financial institutions.

### Financials (Standalone)\*:

Rs in Crores

For the year ended/As on*	31-03-2023	31-03-2024
	(Audited)	(Audited)
Total Income	169.05	178.85
PAT	14.01	22.94
AUM	935.65	942.30
Tangible Networth	181.94	204.76
Total debt	663.78	602.69
<u>Ratio's</u>		
NIM (%)	10.93	9.83
ROTA (%)	1.59	2.68
Interest Coverage (Times)	1.23	1.37
Total CRAR (%)	25.00	25.97
Gross NPA [Stage III] (%)	2.76	2.20
Net NPA [Stage III] (%)	0.30	0.00

\*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil



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### 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 2023-24 – (03 October 2023)	Date & Rating(s) assigned in 2022-23	Date & Rating(s) assigned in 2021-22
1.	Fund Based -Bank Loan Facilities – Term Loans	Long Term	679.58	IVR A-/Stable	IVR A-/Stable	-	-
2.	Proposed Fund Based -Bank Loan Facilities – Term Loans	Long Term	420.42	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.





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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](http://www.infomerics.com).

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loans	-	-	Up to June 2027	679.58	IVR A-/Stable
Proposed Term Loan	-	-	-	420.42	IVR A-/Stable
<b>Total</b>				<b>1,100.00</b>	

### Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-VFS-sep24.pdf>

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

**Annexure 4: List of companies considered for consolidated/Combined 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](http://www.infomerics.com).