



## Press Release

### VFS Capital Limited (VFSCCL)

June 03, 2024

#### Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loans	619.50 (Increased from 596.90)	IVR A-/Stable (IVR A Minus with Stable Outlook)	Reclassification	<a href="#">Simple</a>
Proposed Long Term Bank Facilities	480.50 (Decreased from 503.10)	IVR A-/Stable (IVR A Minus with Stable Outlook)	Reclassification	<a href="#">Simple</a>
<b>Total</b>	<b>1100.00</b>	<b>Rupees One Thousand One Hundred Crore Only</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

As on 17 May 2024, the company has received sanction letter of fresh term loan sanctions of Rs 75.00 crore from SIDBI. Also, there has been reduction in term loans due to periodic repayments. Accordingly, the proposed and outstanding limits have been reclassified.

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

#### Key Rating Sensitivities:

#### Upward Factors

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

#### Downward Factors



## Press Release

- 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

VFSCCL has maintained a comfortable capitalisation as reflected by CRAR of 25.97%, (PY:25.00%) tangible networth of Rs 204.76 crore (PY:Rs 181.94 Crore) and gearing of 2.94x (PY:3.65x) as on March 31, 2024. Networth has increased with profit accretion driven by improved profitability.

##### Improved financial profile

VFSCCLs 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 168.61 crore and PAT of Rs 14.01 Crore for FY23. NIM remained healthy at 9.83% for FY24 (FY23: 10.93%).

##### 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, while NNPA was NIL at the end of FY24 (FY23 – 0.30%). VFSCCL's ability to sustain and improve the asset quality in the new originations and maintain field discipline will be key monitorable.

##### Experienced Management team



## Press Release

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. Kuldip Maity (Managing Director and CEO). Mr. Ajit Kumar Maity has an experience of around four decades while Mr. Kuldip 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, VFSCCL 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.**

VFSCCLs 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.](#)

[Policy on Withdrawal of Ratings](#)



## Press Release

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

[Criteria for default recognition](#)

### **Liquidity: Strong**

VFSCs liquidity remains strong given the lower tenure of loans extended when compared to long tenured loans availed. As on 31 March 2024, VCCL has a adequately matched ALM profile with no negative cumulative mismatches across all the buckets. Also, the company has cash and bank balance of Rs 2.42 crore, unmarked FDs of Rs 121.41 crore and sanctions in hand of Rs 180.00 crore, which provides additional liquidity cushion as on 31 March 2024 .

### **About the company**

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 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**

<b>For the year ended/As on*</b>	<b>31-03-2023</b>	<b>31-03-2024</b>
	<b>(Audited)</b>	<b>(Audited)</b>
<b>Total Income</b>	168.61	178.85
<b>PAT</b>	14.01	22.94
<b>AUM</b>	935.65	942.30
<b>Tangible Networth</b>	181.94	204.76
<b>Total debt</b>	663.78	602.69



## Press Release

Overall Gearing (Times)	3.65	2.94
CRAR (%)	25.00	25.97
GNPA (%)	2.76	2.20
NIM (%)	10.93	9.83

\*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 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	694.50	IVR A-/Stable	IVR A-/Stable	-	-
2.	Proposed Fund Based - Bank Loan Facilities – Term Loans	Long Term	405.50	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



## Press Release

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.

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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	694.50	IVR A-/Stable
Proposed Term Loan	-	-	-	405.50	IVR A-/Stable
<b>Total</b>				<b>1100.00</b>	





## Press Release

**Annexure 2: List of companies considered for consolidated analysis: Not applicable**

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-VFS-jun24.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Nil**

**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 [Complexity Level of Rated Instruments/Facilities](#).