Vedika Credit Capital Limited

October 12, 2022

Rating

Facility/Instrument	Amount (Rs. Crore)	Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	800.00	IVR A- / Stable (IVR Single A Minus with Stable Outlook)	Assigned	Simple
	800.00 (Rs. Eight Hundred crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Vedika Credit Capital Limited (VCCL) derives comfort from its long presence in the microfinance segment under an experienced and professional management team with adequate systems and processes, its comfortable capital adequacy ratio coupled with capital infusion by the promoters in regular intervals and its diversified geographical presence. Further, the rating is also underpinned by growth in VCCL's operation in FY22 coupled with increase in profitability, stable asset quality and its comfortable liquidity profile. These rating strengths are partially offset by monoline nature of operations; relatively risky target segment and exposure to regulatory & socio-political risks inherent in the industry. Further, the rating also take note of its leveraged capital structure.

Key Rating Sensitivities:

Upward factors

- Improvement in scale of operations and asset under management with increase in geographical reach
- Diversification in resource profile with decline in average cost of borrowings with improvement in the capital structure
- Ability of the company to raise equity and debt capital in a timely manner to maintain a prudent capitalisation profile
- Improvement in profitability by maintaining the credit costs and operating overheads on a sustainable basis, as the operations expand

Downward Factors

- Moderation in scale of operations with sharp decline in asset under management and moderation in profitability
- Moderation in the capital structure with deterioration in CAR to below 16%

- Weakening of the profitability profile on account of higher operating overheads and higher credit costs, leading to a decline in ROTA to less than 1.5%
- Sustained deterioration in the asset quality

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced and professional management team with adequate systems and processes**

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. Gautam, Jain (Managing Director) who is having about three decades of experience in the financing and MFI sector. VCCL has installed good tracking and MIS systems, which are adequate to support future growth expansion.

- **Long presence in the microfinance segment**

The company benefits from is long and established presence of more than a decade in MFI sector which enables association with various organisations and mobilisation of resources. On the back of its established and long presence, the company has managed to receive capital support in the form of Optionally Converted Preference Shares (OCPS) from SIDBI amounting to INR 2.00 Crore.

- **Comfortable capital adequacy ratio coupled with capital infusion by promoters**

VCCL has maintained a healthy capital adequacy ratio (CAR) over the years. As on June 30, 2022, CAR was healthy at 23.87%. During FY21, the promoters have infused fresh equity aggregating to Rs.30 crore. Moreover, in Q1FY23 the promoters have infused addition capital of Rs.20 crore in Q1FY23 and is planning to infuse another Rs.15 crore by end of third quarter of FY23.

- **Growth in operation in FY22 coupled with increase in profitability**

VCCL witnessed an erratic movement in its total income during the past three fiscals. The operations of the company were impacted by covid-19 pandemic in FY21 which resulted in dip in its total income attributable to lower loan disbursement during the year. However, backed by gradual ease off of covid impact the company has witnessed an improvement in its operating scenario. Driven by rise in economic activities, the demand for micro loans has also increased gradually from H1FY22 which resulted in growth in its operating income along with rise in number of borrowers and consequent rise in loan disbursements leading to growth in its own loan portfolio. Total AUM also improved from Rs.512.41 crore as on March 31,2021 to Rs.745.72 crore as on March 31,2022 driven by rise in own loan portfolio from ~Rs.341.45 crore as on March 31,2021 to Rs.580.55 crore as on March 31,2022. The own loan portfolio witnessed a Y-O-Y growth of ~6% in total income of the company in FY22. The profitability of the company has also witnessed gradual improvement over the past three years. Furthermore, though net spread has improved, NIM has moderated in FY22 on account of proportionate increase in NBFC/FIs borrowing compared to low-cost bank borrowings. In Q1FY23, the company has achieved a revenue of ~Rs.27 crore. Going forward, Profitability would depend on VCCL's ability to maintain the credit costs at reasonable levels and overall ability of the company to maintain good profitability indicators over cycles and diversify its earnings by venturing into other products/asset classes.

- **Diversified geographical presence**

VCCL is now working with 192 branches spread over 94 districts in Seven states like West Bengal, Assam, Bihar, Jharkhand, Odisha, Tripura and Uttar Pradesh, where they are providing services to more than 2,50,000 clients. Covering of wide number of states provides advantage of diversified geographical presence.

- **Stable asset quality**

VCCL has managed to keep its collection efficiency ~96% in the last one year ending on July 2022 despite spread of pandemic and thereby lockdown coupled with turmoil in the domestic MFI sector in FY22. VCCL though remain exposed to risks associated with the MFI business able to maintain a stable asset quality backed by its strong loan monitoring and adequate credit appraisal process. The GNPA was remained around 2%, while NNPA was nil as on March 31, 2022. The portfolio at risk greater than 30 days (PAR>30 days), has improved in FY22 and remained at ~5% (~7% as on March 31, 2021) on March 31, 2022. The company's ability to maintain the asset quality in the new originations and maintain field discipline will be important from a credit perspective.

<u>Key Rating Weaknesses</u>

- **Monoline nature of operations; relatively risky target segment and regulatory & socio-political risks inherent in the industry**

VCCL's product diversification remains low being concentrated only in the microfinance segment. Unsecured lending to the marginal borrower profile, and the political and operational risks associated with microlending may lead to 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. Further, unsecured lending to the marginal borrower profile and the political & operational risks associated with microfinance lending may result in high volatility in the asset quality indicators. The company's ability to on-board borrowers with good credit history, recruit and retain employees under a competitive operating environment and maintain geographical diversity would be key for managing future growth.

- **Leveraged capital structure**

The company had a gearing at 4.37x as on March 31, 2021, which has further moderated to 6.20x as on March 31, 2022 on account of increase in borrowing from banks and FIs to increase the lending operation, which resulted in, the capital structure continued to remain leveraged impacting financial flexibility. In a relatively steady operating environment, the company has demonstrated significant fundraising ability from various banks and financial institutions. However, given the current economic situation, the leveraged capital structure is likely to limit VCCL's ability to raise further funds from FIs/Banks.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Financial institution/NBFCs

Criteria of assigning Rating Outlook

Liquidity: Adequate

The liquidity of the company seems adequate backed by its unencumbered cash and liquid balances (including undrawn bank limits and security against borrowing upto 12 months maturity) at Rs.51.16 crore as on June 30, 2022. The company reported its collection efficiency of more than ~96% in July 2022 which further supports its liquidity profile. Infomerics expects VCCL will be able to meet its debt obligations in a timely manner assuming its collection efficiency does not drop below the current levels. Moreover, the advances comprise relatively shorter-tenure microfinance loans compared to the tenure of the borrowed funds, the asset liability maturity profile of the company also remains adequate. Additionally, the company had around Rs.90 crore of sanctioned but unutilised lines as on September 14,2022 and this apart the company received funds from a US based foreign lender of US $ 2.9 million. Going forward, its ability to improve the collection efficiency and raise fresh funds in a timely manner will be important from liquidity perspective.

About the Company

VCCL is a Ranchi based Non-Banking Financial Company – Microfinance Institution (NBFC-MFI) registered under Reserve Bank of India (RBI). 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 2,50,000 clients. Beside direct lending, the company also entered into a partnership to work as a Business Correspondence (BC) with Fincare Small Finance Bank and MAS Financial Services Limited wherein VCCL manages the entire micro finance operation for designated areas on behalf of banks/FI's for a certain fee income. As on August 31, 2022 VCCL is managing a total loan portfolio of ~Rs.764 crore (including BC portfolio of Rs.192 crore).

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	106.19	112.86
PAT	4.71	23.24
Tangible Net worth	80.26	103.55
Total Asset	430.43	756.23
Ratios		
ROTA (%)	0.99	3.92
Interest Coverage (times)	1.15	1.49
Total CAR (%)	31.63%	20.05%
Gross NPA (%)	2.21%	2.01%
Net NPA (%)	0%	0%

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Lona (including proposed of Rs.256.27 cr)	Long Term	800.00	IVR A- / Stable	-	-	-
2.	Issuer Rating	Issuer	NA	IVR A- [Is] / Stable [Sept.27, 2022]	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Sanmoy Lahiri Tel: (033) 46022266 Email: slahiri@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Term Loan (including proposed)	-	-	March 2027	800.00	IVR A- / Stable

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-Vedika-Credit-oct22.pdf
.

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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