

Press Release

Vedika Credit Capital Limited

May 07, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 400.00 Cr.
Long Term Rating	ACUITE A-/ Outlook:Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) to the Rs. 400.00 Cr. bank facilities of Vedika Credit Capital Limited (VCCL). The outlook is '**Stable**'.

Jharkhand based VCCL, is an NBFC-MFI primarily engaged in extending Micro loans to women borrowers under the Joint Liability Group Model since 2007. The company has presence in 7 states, primarily in eastern India through a network of 178 branches as on December 31, 2018.

The company was originally incorporated in 1995 by a different set of owners and subsequently, the company was taken over in 2004 by the present promoters, Mr. Ummed Jain (Chairman) and his sons, Mr. Gautam Jain and Mr. Vikram Jain.

Mr. Gautam Jain (Managing Director) was initially engaged in traditional financing and gradually instrumented his aim to transform his lending operations into a recognised and regulated NBFC-MFI - VCCL. The promoters are engaged in two wheeler financing through Jatinder Finance Private Limited, a group company of VCCL.

Analytical Approach

Acuité has adopted a standalone approach on VCCL's business and financial risk profile for arriving at the rating.

Key Rating Drivers

Strengths

- **Expected growth in AUM through a mix of on book and off book initiatives:**

VCCL had commenced its lending operations since 2007 through a mix of Individual loans and Micro loans. VCCL has a 7-member Board led by Mr. Ummed Jain (Chairman), of which four are Directors and three are independent Directors who have over two decades of experience in the field of banking, law and social services. The strong managerial base has supported the growth strategy of the company.

The company's AUM has quadrupled to Rs. 539.2 Cr. as on December 31, 2018 from Rs. 138.8 Cr. as on March 31, 2016. The growth has been driven by wider geographical presence from three states i.e. Bihar, Jharkhand, and West Bengal in 2016 to seven states in 2019 by diversifying to Assam, Uttar Pradesh, Tripura and Odisha and increased network coverage from 44 branches as on March 31, 2016 to 178 branches as on December 31, 2018. Besides expansion in branch network, VCCL has also augmented its resource base over the period April 2015 to December 2018, by raising additional capital of Rs. 26.05 Cr. in the form of equity and compulsorily convertible Preference shares. The company has also leveraged its capital funds to finance its business growth.

The company has strengthened its operational presence over the years by diversifying its geographical penetration along with lower dependence towards single product. Microfinance loans are usually disbursed in clusters and are lent to marginal borrowers with limited ability to absorb income shocks. The management has judiciously improved its geographical penetration resulting in a diverse borrower base spread across various districts and geographies. As on December 31, 2018, Bihar and West Bengal contributed 30.4 percent and 38 percent of VCCL's portfolio, respectively. The balance portfolio was distributed across Jharkhand, Assam, Uttar Pradesh, Odisha and Tripura.

Further, the company has also strengthened its underwriting, monitoring and recovery systems and processes which further supports the overall credit profile of VCCL. The company also initiates individual exposure through business loans and cross sale products in case of regulatory restrictions on lending through the normal microfinance channels. As on December 31, 2018, micro loans comprise 93 percent of the overall AUM, with balance being contributed by cross sale and individual loans. VCCL plans to maintain a mix of 60 percent JLG loans and rest divided among Individual and cross sale products. The company plans to balance its risk metrics for individual loans and cross sale products by focusing on repeat borrowers who have been associated with the company for over 2 credit cycles.

Over the years, the contribution of off book exposure to overall AUM has increased to 37 percent as on December 31, 2018 as against 28 percent as on March 31, 2018 and 26 percent as on March 31, 2017. The company takes off book exposure through Business correspondent model for entities such as Reliance Commercial Finance Limited, IDFC First Bank Limited and MAS Financial Services Limited. It has also entered into Direct Assignment transactions to support its funding requirement. Going forward, the company plans to engage in co-lending, which is capital lite consuming approach to growth in AUM.

Acuité believes that VCCL's ability to scale up its operations while maintaining asset quality and profitability will be key monitorable.

• **Healthy earning profile:**

VCCL on the back of its established presence in the microfinance segment along with strong foothold in its key operating geographies, has demonstrated a track record of healthy asset quality. The company is engaged in unsecured lending to marginal borrower with limited ability to absorb income shocks. The company extends micro credit through Joint Liability Group model and undertakes detailed due diligence of the borrowers including monitoring end use of the borrowed funds. Of the overall AUM as on December 31, 2018, 92 percent of the loans are for income generation purpose which ensure a steady cash flow.

The company reported Gross NPA of 0.51 percent as on December 31, 2018 as against 1.30 percent as on March 31, 2018 and 0.53 percent as on March 31, 2017. The company has written off Rs. 3.89 Cr. in FY2018 and Rs. 1.29 Cr. in FY2017. The company has demonstrated healthy collection efficiency of 97.9 percent in 11 months ended December 31, 2018. VCCL's ability to maintain prudent lending policies and healthy asset quality as it scales up its operations will be a key rating monitorable.

The company's earning profile is supported by healthy profitability on an increasing scale of operations. Net Interest Margins (NIMs) improved to 9.19 percent in FY2018 as against 7.88 percent in FY2017, primarily on account of the equity funded growth in loan book during FY2018. The company's Return on Average Assets (ROAA) improved to 1.7 percent in FY2018 from 1.6 percent in FY2017. The company's earning profile is supported by healthy operating efficiency as reflected in operating expense to earning asset ratio of 5.7 percent in FY2018 as against 5.1 percent in FY2017.

The overall sluggish NBFC scenario post September 2018 has impinged upon the profitability metrics of VCCL for 9 months ended December 2018. The NIMs and ROAA (annualised) has moderated to 7.58 percent and 1.55 percent, respectively, mainly on account of higher cost of funds.

Acuité believes that VCCL will be able to sustain its profitability and asset quality metrics on the back of established presence in the microfinance segment and established systems and processes and improving profitability metrics by focusing on products such as Business correspondent and Co-lending.

Weaknesses

- **Leveraged Capital Structure; albeit expected to be moderate on the back of increasing focus on off book growth:**

VCCL is engaged in microfinance lending with loan tenure ranging from 12 to 24 months. The Company is in expansion stage wherein the management plans to grow on book as well as off book exposure by increasing its presence in the existing geographies.

The company's AUM stood at Rs. 539.2 Cr. as on December 31, 2018 as against Rs. 446.2 Cr. as on March

31, 2018 and Rs. 285.2 Cr. as on March 31, 2017. Over the years, the contribution of owned portfolio to overall AUM has reduced to 63 percent as on December 31, 2018 from 72 percent as on March 31, 2018 and 74 percent as on March 31, 2017.

The Company's Capital Adequacy ratio stood at 26.58 percent as on December 31, 2018 of which Tier I capital contributed 17.01 percent and Tier II capital contributed 9.57 percent. The Tier II capital is by way of subordinated debt from IDFC First Bank Limited and MAS Financial Services Limited. The Company's gearing stood at 7.6 times as on March 31, 2018 (6.4 times as on March 31, 2017). The gearing has, however, improved to 6.7 times as on December 31, 2018 by infusion of equity and Preference shares of Rs. 9.93 Cr during the period. The debt comprises Optionally Convertible Preference shares by SIDBI, Term loans from Banks/FIs, and subordinated debt from FI's. The leveraged capital structure is likely to limit VCCL's ability to raise further funds from FIs/Banks at competitive rates.

The company plans to increase its off book exposure to 45 percent of the overall AUM by March 2020, through a mix of Business correspondent relations, Co-lending and Direct Assignment. Hence, with the increased off book exposure and higher plough back of profits, the overall leverage is expected to moderate over the medium term.

Acuité believes that the company's ability to successfully execute its strategy of off balance sheet growth while maintaining its leverage at prudent levels will be key monitorable.

Liquidity Position:

VCCL's overall liquidity profile remains comfortable, given that its loans comprise relatively shorter-tenure microfinance loans compared to the tenure of borrowed funds. There are no cumulative negative mismatches in any of the time buckets upto 5 years. Since, micro loans extended by VCCL are primarily priority sector exposures, these exposures attract strong demand from Public Sector Banks. The company has demonstrated its ability to raise funds by assigning its portfolio which supports its liquidity profile. The Company's liquidity profile is further supported by unutilised bank limits of Rs. 18 Cr.

Outlook: Stable

Acuité believes that VCCL will maintain a 'Stable' outlook over the near to medium owing to its established track record and expected growth strategies along with healthy asset quality and earning profile. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalisation indicators. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in asset quality or sharp decline in asset quality or profitability margins.

About the Rated Entity - Key Financials

Parameters	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	408.81	256.15	179.22
Total Income*	Rs. Cr.	35.60	18.75	10.43
PAT	Rs. Cr.	5.52	3.42	1.35
Net Worth	Rs. Cr.	46.30	32.80	26.80
Return on Average Assets (RoAA)	(%)	1.66	1.57	0.96
Return on Average Net Worth(RoNW)	(%)	13.96	11.47	6.18
Total Debt/Tangible Net Worth (Gearing)	Times	7.62	6.37	5.59
Gross NPA	(%)	1.30	0.53	0.43
Net NPA	(%)	0	0	0

* Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not applicable

*Annexure – Details of instruments rated

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Term Loan	NA	NA	NA	11.12	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	22.87	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	2.40	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	0.62	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	84.64	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	0.92	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	1.40	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	2.14	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	4.94	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	14.73	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	5.45	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	6.13	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	14.39	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	6.79	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	1.38	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	3.75	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	14.00	ACUITE A-/Stable (Assigned)

-	Term Loan	NA	NA	NA	8.48	ACUITE A-/Stable (Assigned)
-	Term Loan	NA	NA	NA	193.85	ACUITE A-/Stable (Assigned)

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About Acuité Ratings & Research:

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