

Press Release

Vedika Credit Capital Limited

May 18, 2020



Rating Downgraded; Rating watch with Negative Implications

Total Bank Facilities Rated*	Rs. 400.00 Cr.
Long Term Rating	ACUITE BBB+ (Downgraded from ACUITE A-/Stable; Under Rating watch with negative implications)
Instruments Rated	Rs. 100.00 Cr
Long Term Rating	ACUITE BBB+ (Assigned; Under watch with negative implications)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating of '**ACUITE A- (read as ACUITE A minus)**' to '**ACUITE BBB+ (read as ACUITE triple B plus)**' on Rs. 395.00 Cr. bank facilities and has assigned the loan the rating of '**ACUITE BBB+ (read as ACUITE triple B plus)**' on Rs. 5.00 Cr. bank facilities and Rs. 100.00 Cr. Non-convertible Debentures of Vedika Credit Capital Limited (VCCL). Acuité has placed the ratings are '**Under Watch with Negative Implications**'.

Rationale for downward revision and placing the rating on watch with negative implications

The revision in rating is primarily driven by the deterioration in liquidity buffers and decreased financial flexibility of the company due to its highly leveraged capital structure. The company's operations have been severely impacted due to the outbreak of COVID-19 and lockdowns in its areas of operations. Acuité believes that the elevated gearing levels (at 6.48 times as on December 31, 2019) could add to challenges in raising additional debt in view of heightened risk aversion among lenders (banks and NBFC) Any significant delay in attaining optimal collection efficiency levels or challenges faced in raising fresh long term funds (Debt or equity) will intensify the liquidity pressures of the company. The stance of the lenders, over the next two quarters will remain crucial to the credit profile of VCCL as the normalization of collection efficiency is expected to be gradual.

The outbreak of COVID-19 and the continued lockdowns has significantly impacted the operations of Micro Finance Institutions (MFIs) like VCCL. The borrowers of MFIs typically comprise of economically challenged sections of society, whose income streams are linked to their day to day activities. The continued lockdown have impacted the ability of most of these borrowers to carry on their daily economic activities thus impacting the cashflows of these borrowers. Besides the impact on the cashflows of the borrowers, the collection efficiency of players like VCCL have also been impacted due to logistical challenges on the part of MFIs in reaching out to the borrowers and engaging with them on a periodic basis. Resultantly, the collections have drastically declined and there is a considerable uncertainty as of now, on the resumption of normal operations. It is difficult to ascertain at the current juncture the impact on the overall asset quality as the credit profile of some of the borrowers could be impaired for a prolonged duration.

Besides the asset side challenges mentioned above, the company also faces challenges on the liability side. Its gearing as on December 31, 2019 stood at 6.48 times, its borrowings (excluding sub-debt) stood at Rs. 402.72 Cr. from 16 banks and 24 NBFCs. As on March 31, 2020, the outstanding borrowings from banks stood at Rs. 199.64 Cr (~49%) and from NBFCs/FIs stood at Rs.203.08 Cr (~51%). In view of the ongoing crisis, VCCL had extended a three months' moratorium to all its borrowers which was in line with general practice followed by other MFIs. Meanwhile, VCCL was expecting a similar relief i.e. moratorium from its lenders and had sought moratorium from all its lenders in the 1st week of April 2020. However as of 10th May 2020, it had received explicit approval for moratorium till May 2020 from only 19 lenders comprising 47 percent of the borrowings as on March 31, 2020. The balance lenders have yet to communicate their stance.

Since VCCL's collections from borrowers have virtually halted, their ability to make payments as per original terms has been severely impaired. VCCL's scheduled monthly collections are ~Rs. 32 Cr on a monthly basis against which its debt servicing obligations (as per regular schedule are ~Rs. 28 Crs.) Even in respect of cases where moratorium has been received till May-2020, VCCL will be required to commence the repayments from June 2020 onwards. Acuité believes that, VCCL's collection efficiency could improve only on a gradual

basis and hence in event of challenges in getting extended the moratorium from all lenders, VCCL's liquidity pressures could intensify. VCCL is currently in discussions with lenders to arrange for long term funds under TLTRO and under other windows like special liquidity facility. Acuité observes that the banks have been adopting a very selective and cautious approach to NBFCs hence their approach towards highly geared companies like VCCL is currently uncertain.

Against this above backdrop, there will be 3 key monitorables: Firstly, the ability to achieve optimal collection efficiency commensurate with the monthly obligations (both debt servicing obligations and operating expenses). Secondly, the stance of the lenders including NBFCs to extend moratorium till collection efficiency improves/long term funding support is arranged by the promoters. Thirdly, the ability of the promoters to arrange for long term funding support either through equity or long term debt.

About the company

Jharkhand based VCCL, is a Non-Banking Finance Company (NBFC) Micro Finance Institution (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 214 branches as on February 29, 2020.

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.

Acuité has been guided by recent SEBI circular dated 30th March, 2020 (Circular No: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/53) while arriving at the rating. Acuite has also relied on the recent RBI circular dated 27th March, 2020 (Circular No: RBI/2019-20/186) in this regard. Acuite observes that, the company is yet to receive moratorium from some of its lenders. The company has skipped payments to these lenders for April and May 2020. Acuite believes that, this slippage is attributable to the ongoing crisis and hence has not construed these slippages as a credit event while arriving at the rating decision. Acuité policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>.

Key Rating Drivers

Strengths

- Established track record of operations:**

VCCL 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 grown to Rs.625.30 Cr. as on February 29, 2020 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 2020 by diversifying to Assam, Uttar Pradesh, Tripura and Odisha and increased network coverage from 44 branches as on March 31, 2016 to 214 branches as on February 29, 2020. Besides expansion in branch network, VCCL has also augmented its resource base over the period April 2015 to December 31, 2019, by raising additional capital of Rs. 33.8 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 February 29, 2020, Bihar and West Bengal contributed 22.5 percent and 36.5 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 February 29, 2020, micro loans comprised 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 33 percent as on February 29, 2020 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 MAS Financial Services Limited, Reliance Commercial Finance Limited, IDFC First Bank Limited, SIDBI, IDBI and Fincare SFB. 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 established presence and long track record of operations in the area of operations will support its credit profile.

Weaknesses

- Leveraged Capital Structure impacting financial flexibility; significant near term obligations adding to liquidity pressures:**

VCCL engaged in unsecured lending to marginal income borrowers with limited ability to absorb income shocks. The company extends micro credit through Joint Liability Group (JLG) model. It has over the years established a diverse resource base comprising of 40 lenders which includes 16 banks and 24 financial institutions and NBFCs. As on Dec 31, 2019 the company had a net worth of Rs. 71.69 Cr and borrowings of Rs. 463.96 Cr as against net worth of Rs. 67.37 Cr and borrowings of Rs. 445.53 Cr. The Company's gearing stood at 6.48 times as on December 31, 2019 (6.61 times as on March 31, 2019). The debt comprises Term loans from Banks/FIs, and subordinated debt from FI's.

With the outbreak of COVID and subsequent lockdowns the cash flows of its borrower profile has been severely impacted, adding to it is the challenges faced to physically access the JLG groups for cash collections. The MFIs like VCCL was required to extend a moratorium to its borrowers and they in turn were expecting a similar support from their lenders. VCCL had also sought similar moratorium from its lenders.

As on March 31, 2020 it had unencumbered cash and bank balance of Rs. 18.23 Cr as against its obligations (debt obligation and operating expenses) for April-20 of ~Rs.18 Cr (excluding loans for which moratorium was extended, the stance of the other lenders granting moratorium is still awaited), collection efficiency in the month of April ~4-5%. The cash flows are currently impacted due to mismatches in collections and stress is expected to continue over the near to medium term. Post lock downs being lifted too, the recovery of collection efficiency to an optimal level is expected to be gradual. VCCL's borrowing have maturity upto 36 months, however ~53% of its borrowings have maturities within a year. This gives rise to the need for additional liquidity either through equity or debt over the near term to medium term.

The Company's Capital Adequacy ratio (CAR) stood at 21.13 percent as on December 31, 2019 of which Tier I capital contributed 14.46 percent and Tier II capital contributed 6.67 percent. The Tier II capital is by way of subordinated debt from IDFC First Bank Limited and MAS Financial Services Limited. Any prolonged time taken for resumption of activities in these areas of operations may lead to long term stress on VCCL's asset quality which may give rise to additional credit costs. This may impact the net worth of the company and thereby it's CAR. The ability of the promoters to infuse additional equity capital, at the appropriate time, to maintain its capital adequacy levels will be key monitorable.

The company's loan book stood at Rs. 427.15 Cr as on Dec 31, 2019 which was ~100 percent hypothecated towards its borrowings. In a relatively steady operating environment the company has demonstrated significant fund raising 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. This is elevated by the cautious and selective approach adopted by lenders to take additional exposure towards high risk segment such as unsecured lending.

In addition to liability side concerns above the company has a significant portion of off book exposures through its business correspondent (BC) agreements entered in with banks and FIs. In the event of

prolonged delays (beyond the period of moratorium already extended by the BC partners) for collections to reach optimal levels, there is an elevated possibility of the counterparties i.e. the banks/ FIs with whom BC is entered into, recovering their monies from the first loss default guarantee extended by VCCL in the form of fixed deposits.

Acuité believes that the company's ability to manage its liquidity at the current juncture while containing its credit costs will be critical to its credit profile, any sharp increase in credit costs could impact its capital adequacy buffers.

Rating Sensitivities

- Movement in collection efficiency
- Movement in liquidity buffers
- Movement in asset quality
- Decline in Profitability
- Reduction in capital adequacy buffers
- Stance of lenders in respect of extending moratorium
- Changes in regulatory environment

Liquidity Position: Stretched

The liquidity buffer of VCCL are currently significantly impacted and the stress is expected to continue till resumptions of normal operations. VCCL has extended moratorium to all borrowers till May 2020 and was expecting similar moratorium from its lenders. At present moratorium from only 19 out of 40 lenders comprising 47 percent of total borrowings has been obtained till May 2020. The other lenders (11 banks and 10 NBFCs) are yet to communicate their willingness to extend a moratorium. Going by the current developments it appears that the improvement in collections will be a gradual process. Acuite believes that VCCL may require additional moratorium from its lenders till its collection efficiency reaches optimal levels.

VCCL's monthly collections on a normal steady state basis are around Rs. 36 Cr. against which it has debt service obligations of around Rs.28 Cr and operating expenses of Rs 3.75 Cr. per month. The company plans to infuse fresh equity in second quarter FY2021. The company is in discussion with various lenders to raise long term debt under the TLTRO route and through the special liquidity facility. The stance of existing lenders and the ability of the company to raise long term funding (equity/debt) commensurate with its near term obligations will be critical to the maintenance of stable liquidity profile. Any challenges in raising fresh long term funding or in obtaining moratorium from lenders could impart negative bias to the rating.

About the Rated Entity - Key Financials

Parameters	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	529.47	408.81	256.15
Total Income*	Rs. Cr.	49.38	35.60	18.75
PAT	Rs. Cr.	6.89	5.52	3.42
Net Worth	Rs. Cr.	67.37	46.30	32.80
Return on Average Assets (RoAA)	(%)	1.47	1.66	1.57
Return on Average Net Worth(RoNW)	(%)	12.13	13.96	11.47
Total Debt/Tangible Net Worth (Gearing)	Times	6.61	7.62	6.37
Gross NPA	(%)	0.51	1.30	0.53
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

Material Covenants:

VCCL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. As per confirmation received from client vide mail dated 12 May 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

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-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument /Facilities	Term	Amount (Rs.Cr)	Ratings/Outlook
Nov 05, 2019	Term Loan	Long term	11.12	ACUITE A-/Stable (Withdrawn)
	Term Loan	Long term	20.27	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	30.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	2.40	ACUITE A-/Stable (Withdrawn)
	Term Loan	Long term	15.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	0.62	ACUITE A-/Stable (Withdrawn)
	Term Loan	Long term	84.52	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	0.92	ACUITE A-/Stable (Withdrawn)
	Term Loan	Long term	0.46	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	1.29	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	4.09	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	10.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	8.16	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	3.74	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	4.38	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	10.09	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	0.55	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	2.92	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	6.67	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	12.00	ACUITE A-/Stable (Reaffirmed)

May 07, 2019	Term Loan	Long term	9.25	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	2.60	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	7.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	3.16	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	5.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	10.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	148.87	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long term	11.12	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	22.87	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	2.40	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	0.62	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	84.64	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	0.92	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	1.40	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	2.14	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	4.94	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	14.73	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	5.45	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	6.13	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	14.39	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	6.79	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	1.38	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	3.75	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	14.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	8.48	ACUITE A-/Stable (Assigned)

	Term Loan	Long term	193.85	ACUITE A-/Stable (Assigned)
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***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	NA	NA	NA	16.11	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	30.00	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	14.87	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	65.35	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	0.46	ACUITE BBB+ (Withdrawn)
Term Loan	NA	NA	NA	0.56	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	3.00	ACUITE BBB+ (Assigned) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	1.78	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	8.83	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	5.51	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	2.29	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	2.63	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	6.50	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	0.55	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	5.00	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	2.22	ACUITE BBB+ (Assigned) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	5.15	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	10.00	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'

					Implications'
Term Loan	NA	NA	NA	7.71	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	1.35	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	6.12	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	2.53	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	4.76	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	9.52	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	20.00	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Term Loan	NA	NA	NA	167.66	ACUITE BBB+ (Downgraded) On 'Watch with Negative Implications'
Proposed Secured Redeemable Non-Convertible Debentures	NA	NA	NA	100.00	ACUITE BBB+ (Assigned) On 'Watch with Negative Implications'

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About Acuité Ratings & Research:

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