

Press Release

Vector Finance Private Limited

March 22, 2021



Rating Downgraded

Instruments Rated*	Rs.50.00 Cr.
Long Term Rating	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating for bank facilities of Vector Finance Private Limited aggregating to Rs.50.00 Cr from **"ACUITE BB"** (read as ACUITE double B) to **"ACUITE BB-"** (read as ACUITE double B minus). The outlook is **"Stable"**.

The revision in the ratings reflects deterioration in financial performance as reflected in continued losses (Rs.7.62 Cr. (Provisional) in 9MFY2021 as against Rs.9.20 Cr. in FY2020 and Rs.0.65 Cr. in FY2019), resulting in erosion in networth (Rs.9.62 Cr. (Provisional) as on December 31,2020 as against 14.54 Cr. as on March 31,2020 and 22.89 Cr. as on March 31,2019). The revision also factors in weak asset quality and expected rise in credit provisions during Q4FY21 which is further expected to weaken credit profile. The rating continues to factor in inherent risks in microfinance business including geographical concentration as well as weak credit profile of borrowers. Further, Acuité notes asset quality risks emanating from impact of COVID-19 and understands that the company is in process of restructuring some portion of its loan book. The company's ability to scale up its operations while sustaining improvement in financial risk profile will also act as key rating sensitives.

About the Company

Odisha based Vector Finance Private Limited (VFPL) was incorporated in November 2018. It is an RBI registered Non-Banking Finance Company – Micro-Financial Institution (NBFC-MFI). VFPL is promoted by Mr Rahul Johri, Mr Sumit Sharma and Mr Prasanta Kumar Sahu to extend micro credit to women borrowers in semi urban and rural areas for income generating activities through joint liability group (JLG) model. The operations of VFPL are spread across 59 districts of six states, namely Odisha, Assam, West Bengal, Madhya Pradesh, Chhattisgarh and Tripura through a network of 129 branches as on December 31,2020.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Vector Finance Private Limited to arrive at the rating.

Key Rating Drivers:

Strengths

• Experienced management:

VFPL was promoted by Mr Rahul Johri, Mr Sumit Sharma and Mr Prasanta Kumar Sahu, who are ex-bankers with exposure to Banking and financial services including strategy, operations, personnel management and micro finance. Mr. Johri has nearly three decades experience in BFSI segment through various senior management roles in Bandhan Bank, Standard Chartered Bank, Barclays Bank and DBS Bank. Mr Sahu has about sixteen years of experience in Microfinance operations in India. He was instrumental in setting up the microfinance business for Axis Bank and has also been associated with Bandhan Bank and SIDBI. Mr Sharma has over two decades experience in personnel management of HSBC Bank, DBS Group, Genpact and Jana Small Finance Bank. The company has put in place a second line of management who have experience of nearly a decade in microfinance lending and operations.

VFPL commenced operations from January 2019 as a business correspondent for MAS financials Pvt. Ltd., subsequently, it began building its own portfolio from August, 2019. VFPL had Assets under Management

(AUM) of Rs.81.28 Cr. as on December 31, 2020 (Rs.85.97 Cr. as on March 31, 2020) with off-book portfolio (business correspondence activities) comprising Rs.66.96 Cr. as on December 31,2020 (Rs.59.42 Cr. as on March 31,2020).

Acuité believes that VFPL will continue to benefit from extensive experience of its promoters and management team to expand its operations and grow its loan portfolio.

Weaknesses

- **Deterioration in financial performance:**

VFPL's financial performance witnessed deterioration as reflected in continued losses of Rs.7.62 Cr. (Provisional) in 9MFY2021 as against Rs.9.20 Cr. in FY2020 and Rs.0.65 Cr. in FY2019 mainly due to high operating costs coupled with subdued uptick in on-book portfolio. Acuité notes that the company is in process of restructuring some portion of its loan book and as a result has not made any provisions during 9MFY2021. The company commenced operations from January 2019 as a business correspondent for MAS Financial Services Ltd., subsequently, it began building its own portfolio from August, 2019 and its AUM rose to Rs.86 Cr. as on March 31,2020 with off-book portfolio accounting for ~67% of AUM as on March 31,2020 which increased to ~83% as on December 31,2020 as the company faced challenges in raising funds. Additionally, operating costs increased significantly to Rs.15.53 Cr. in FY2020 as against Rs.0.95 Cr. in FY2019 as the company scaled up its operational capabilities. During 9MFY2021, the operating costs remained elevated at Rs.12.35 Cr. (Provisional). Continued losses have resulted in decline in networth to Rs.9.62 Cr. (Provisional) as on December 31,2020 as against 14.54 Cr. as on March 31,2020 and 22.89 Cr. as on March 31,2019. Nonetheless, gearing ratio moderated marginally to 1.41 times (Provisional) as on December 31,2020 as against 1.33 times as on March 31,2020 as the borrowings reduced to Rs.13.58 Cr. (Provisional) from Rs.19.39 Cr. as on March 31,2020. Further, CRAR stood at 47.29% as on December 31,2020 as against 42.99% as on March 31,2020.

Acuité believes that VFPL's ability of to scale up its operations while demonstrating sustainable improvement in its overall financial performance will be key credit monitorable.

- **Moderate geographic concentration ; risk inherent to microfinance segment:**

VFPL expanded its operations to six states with a network of 159 branches across 59 districts as on December 31, 2020 from one state with a network of 20 branches across 59 districts as on March 31,2019. As on December 31, 2020, Odisha and Tripura together constituted ~68 % of its AUM. This exposes the company to high geographical concentration risk besides risks inherent in microfinance segment. The company's performance is expected to remain exposed to competitive landscape in these regions and occurrence of events such as natural calamities, may adversely impact the credit profile of the borrowers.

Acuité believes that moderate geographical concentration of its portfolio will continue to weigh on its credit profile over the near to medium term.

Rating Sensitivity

- Scaling up of operations with sustainable improvement in financial risk profile
- Adverse movement in Capital adequacy levels owing to credit slippages
- Deterioration in liquidity position
- Rise in asset quality pressures
- Increase in geographic concentration
- Changes in regulatory environment governing microfinance activities

Material Covenants

VFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

Liquidity Position: Adequate

VFPL's liquidity profile remains adequate with no negative cumulative mismatches in the near to medium term as per ALM dated March 31,2020. The company's unencumbered cash and cash equivalents stood at Rs.5.56 Cr. as on January 31,2021 and its monthly debt obligations stood at ~Rs.1.83 Cr for February and

March 2021. Acuité believes that asset quality pressures may put strain on liquidity profile and the adequacy of liquidity profile will also hinge on funding support from promoters/lenders.

Outlook: Stable

Acuité believes that VFPL will maintain a 'Stable' outlook over the medium term supported by its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio with sustainable improvement in financial risk profile. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of asset quality pressures and deterioration in profitability metrics.

About the Rated Entity - Key Financials

Particulars	Unit	FY2020 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	38.76	23.02
Total Income (Net of Interest Expense)	Rs. Cr.	5.03	0.27
PAT	Rs. Cr.	(9.20)	(0.65)
Net Worth	Rs. Cr.	14.54	22.89
Return on Average Assets (RoAA)	(%)	(29.78)	(5.62)
Return on Average Net Worth (RoNW)	(%)	(49.15)	(5.65)
Total Debt/Tangible Net Worth (Gearing)	Times	1.33	0.00
Gross NPAs	(%)	0.08	0.00
Net NPAs	(%)	0.00	0.00

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of Non-Banking Financing Entities:- <https://www.acuite.in/view-rating-criteria-44.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
30-Dec-2019	Proposed Term Loan	Long Term	50.00	ACUITE BB/Stable (Assigned)

***Annexure – Details of instruments rated**

Facility	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue	Ratings/Outlook
				(Rs. Crore)	
Term Loan	23-Aug-19	Not Available	Not Available	2.33	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Term Loan	29-Aug-19	Not Available	Not Available	0.14	ACUITE BB- (Downgraded and Withdrawn)

Term Loan	14-Sep-19	Not Available	Not Available	2.41	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Term Loan	30-Sep-19	Not Available	Not Available	0.95	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Term Loan	19-Aug-20	Not Available	Not Available	0.88	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Term Loan	22-Oct-19	Not Available	Not Available	0.53	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Term Loan	05-Nov-19	Not Available	Not Available	0.99	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Term Loan	17-Jan-20	Not Available	Not Available	1.25	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Term Loan	24-Feb-20	Not Available	Not Available	0.35	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Term Loan	03-Mar-20	Not Available	Not Available	1.28	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Term Loan	01-Apr-20	Not Available	Not Available	2.68	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Term Loan	Not A			36.35	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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