

Press Release

Village Financial Services Limited

August 14, 2020

Rating Reaffirmed and Assigned



Total Facilities Rated	Rs. 520.00 Cr.
Bank facilities Rated*	Rs. 135.97 Cr.
Long Term Rating	ACUITE A-/Negative (Reaffirmed) (outlook revised from Stable)
Bank facilities Rated*	Rs. 364.03 Cr.
Long Term Rating	ACUITE A-/Negative (Assigned)
Total Facilities Rated*	Rs. 20.00 Cr.
Short Term Rating	ACUITE A2+ (withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 135.97 Cr. bank facilities and assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs.364.03 Cr. bank facilities of Village Financial Services Limited (VFSL). The outlook is revised to '**Negative**' from '**Stable**'.

Acuite has withdrawn the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 20.00 Cr. Commercial Paper Programme of VFSL. This rating withdrawal is in accordance with the Acuite's policy on withdrawal of rating. The rating is being withdrawn at the company's request and based on confirmations received as per Acuite's policy.

Reasons for revision in outlook:

The outbreak of the COVID-19 virus and the continued lockdowns have significantly impacted the operations of MFIs like VFSL. VFSL is mainly engaged in extending micro-credit to women borrowers through the Joint Liability Group (JLG) model. The borrowers of MFIs typically comprise the economically challenged sections of society whose income streams are linked to their day to day activities. The continued lockdowns have impacted the ability of most of the borrowers to carry on their income-generating activities, thereby affecting their debt servicing ability.

The collection efficiency of the MFIs is also impacted due to logistical challenges in reaching out to the borrowers and engaging with them on a periodic basis. VFSL's total collections during May, June and July 2020 were ~Rs.8 Cr., ~Rs.42 Cr. and ~Rs.57 Cr. respectively, i.e. ~7 percent of the scheduled collection for May, ~37 percent of the scheduled collection for June and ~51 percent of the scheduled collection for July. While the collections have been gradually improving, they are significantly below the scheduled collections and considerable uncertainty exists as regards the resumption of normal operations and achievement of optimal collection efficiency on a sustainable basis. It is difficult to ascertain at the current juncture, the impact on the overall asset quality as the credit profiles of some of the borrowers could be impaired for a much longer time. Acuite believes that the impact of the lockdown on the asset quality will be clear only after the moratorium, i.e. around the third quarter of FY 2021.

Besides the asset side challenges mentioned above, VFSL could face challenges on fresh, fundraising side. VFSL's gearing as on March 31, 2020 was ~4.8 times (as against ~6.2 times as on March 31, 2019). VFSL's resource raising initiatives during FY 2020 was mainly driven by large volumes of sell down transactions through securitization/PTCs and Direct assignment (DA) transactions. Considering the current situation wherein most of VFSL's borrowers are currently under the moratorium, the volume of sell downs in the current year could be significantly impacted. Considering the fact that attainment of optimal collection efficiency on a sustained basis over the near term could be challenging in view of the intermittent lockdowns, the stance of the lenders (in terms of moratorium extension) and investors of PTCs will be critical. Any challenges in receiving moratorium from lenders will impact operational performance and liquidity. It is pertinent to note that scheduled steady-state collections (on AUM basis) stand at around 115 Cr. – Rs.120 Cr. on a monthly basis against which its scheduled debt servicing obligations and payouts to PTC/DA/BC investors/partners (as per regular schedule) are around Rs.90Cr.-Rs.95 Cr. on a monthly basis. Against this backdrop, a sharp improvement in collections from existing levels will be critical and any challenges in attaining optimal collection efficiency could impart a negative bias to the rating.

About the company:

Village Financial Services Limited (VFSL), incorporated in 1994, is a Kolkata based NBFC-MFI engaged in extending microfinance loans to woman borrowers organized in Joint Liability Groups (JLG). The company is also engaged in extending SME loans to women borrowers in rural and semi-urban areas. The company is promoted by Mr. Ajit Kumar Maity (Chairman) and his son, Dr. Kuldip Maity (Managing Director & CEO) who have over two decades of experience in the microfinance segment. The promoters were earlier engaged in microfinance activities through Village Welfare Society (VWS) and Village Micro Credit Services (VMCS- Section 25 Company), since 1982 and 2004, respectively. However, VMCS has been discontinued since 2017 and all fresh disbursements are carried only in VFSL.

The day to day operations of VFSL is managed by Dr. Kuldip Maity (Managing Director & CEO). VFSL presently operates through a branch network of 246 branches as on March 31, 2020 spread across 13 states, namely, West Bengal, Bihar, Assam, Odisha, Tripura, Chhattisgarh, Madhya Pradesh, and Uttarakhand among others.

Analytical Approach

Acuite has adopted the standalone approach on VFSL's business and financial risk profile for arriving at the rating.

Key Rating Drivers

Strengths

- **Established track record in microfinance lending coupled with experienced management:**

VFSL, a Kolkata based NBFC-MFI, commenced microfinance lending to woman borrowers organized in Joint Liability Groups since 2006. The company is also engaged in extending SME loans to women entrepreneurs in rural and semi-urban areas for income-generating activities. VFSL has its operations spread across 13 states, mainly West Bengal, Tripura, Assam, Bihar, Jharkhand among others. The company operates through a network of 246 branches as on March 31, 2020.

VFSL is promoted by Mr. Ajit Kumar Maity (Chairman) and Dr. Kuldip Maity (Managing Director and CEO). Mr. Ajit Kumar Maity has over three decades of experience in microfinance and social development. He has obtained training in Microfinance- Legal & Regulatory Frameworks in September, 2006 from International Development Law Organization which was held in Sydney. Dr. Kuldip Maity has over a decade of experience in microfinance space. Both the promoters have helped VFSL become the first MFI to gain NBFC status in West Bengal and obtain the honour of being certified as the first 9001:2008 ISO MFI in India.

VFSL's board comprises of 6 members led by Mr. Ajit Kumar Maity (Chairman). The board comprises Mr. Ajit Kumar Maity, Dr. Kuldip Maity and four independent directors. These professionals have over two decades of experience in banking and financial services. The day to day operations of VFSL is managed by Dr. Kuldip Maity (MD & CEO) of VFSL.

The established track record of promoters in microfinance lending has supported VFSL's growth strategy. The company's Asset under Management (AUM) has grown to ~Rs. 1091 Cr. as on March 31, 2020 from ~Rs.740 Cr. as on March 31, 2018. The on-book portfolio stood at ~Rs.718 Cr. as on March 31, 2020 vis. a. vis ~Rs.628 Cr. as on March 31, 2018. As on March 31, 2020, West Bengal and Bihar contributed 71 percent and 10 percent, respectively of VFSL's assets under management(AUM). The balance AUM was distributed across Assam, Odisha, Tripura, Chhattisgarh, Madhya Pradesh and Uttarakhand, among others.

Besides on book growth, the promoters have demonstrated their ability to raise funds through off-book sources. VFSL has managed to raise ~Rs.677 Cr. through securitization/PTCs and direct assignment transactions during FY 2020. Of the overall AUM of ~Rs.1091 Cr. as on March 31, 2020, ~66 percent (~Rs.718 Cr.) comprised on-book exposure and balance comprised off-book exposure. Apart from securitization and DA transactions, VFSL has off-book exposure in the form of business correspondence relationships with IDFC First bank and IDBI bank.

Acuite believes that VFSL's business profile will continue to benefit from the established presence in microfinance lending backed by strong managerial support.

Weaknesses

- **Susceptibility of near term operating performance to the current challenging environment; geographically concentrated portfolio adds to challenges**

The MFI lending segment entails providing loans to the lower economic strata of the society. The pandemic and the consequent lockdowns have resulted in significant logistical challenges, affecting the movement of men and goods. This has impacted the credit profile of most of the borrowers and the impact has been more severe on the lower economic strata of the society who are already

vulnerable. The logistical challenges in reaching out to the borrowers either for collections or disbursements have disrupted the operations of most of the MFIs. The intermittent lockdowns and relaxations have resulted in volatility in collection efficiency. Most of the decisions regarding lockdowns are currently taken at the state government and local authorities level. VFSL's top 5 districts, belonging to West Bengal, account for ~35 percent of the AUM as on March 31, 2020. Since VFSL's portfolio is majorly in West Bengal, the stance of state government and local authorities will be critical in deciding the extent and timing of resumption of normal activities. This will also have an impact on the trajectory of collection efficiency.

In the event of sustained challenges in attaining optimal collection efficiency, the stance of the lenders and investors of PTCs will be critical. Acuite believes that while some of the impacts on collection efficiency is temporary, a portion of the borrowers could suffer a permanent impairment in their livelihood and this, in turn, could impact the portfolio of lenders like VFSL. VFSL has been required to extend the moratorium to borrowers in line with the practice followed by other players and as allowed by the regulators. While the MFI sector has demonstrated strong resilience to economic events such as natural calamities and events like demonetization, the players had to endure a high level of credit costs.

VFSL's gross non-performing assets (GNPAs) stood at ~Rs.9.4 Cr. (~0.9 percent of the AUM as on March 31, 2020) vis. a vis. ~Rs.3.3 Cr of GNPAs as on March 31, 2019 (~0.3 percent of the AUM as on March 31, 2019). Any prolonged time taken for the resumption of normal activities may lead to long term stress on their asset quality and elevated credit cost.

Acuite believes, that VFSL's ability to maintain growth in AUM against the backdrop of a subdued economic scenario while managing its asset quality will determine the trajectory of its future credit profile.

Rating Sensitivities

- Movement in collection efficiency
- Movement in Liquidity buffers
- Movement in asset quality
- Profitability and capital adequacy buffers
- Changes in the regulatory environment

Material Covenants:

VFSL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity Position: Adequate

VFSL's overall liquidity profile remains adequate, given that its loans comprise relatively shorter-tenure microfinance loans compared to the tenure of borrowed funds. VFSL's near term liquidity position is well managed based on ALM Statement as on March 31, 2020, with positive mismatches in individual buckets for up to one year. As per the ALM statement as on March 31, 2020, ~52 percent of total borrowings mature within one year vis. a vis. ~81 percent of advances mature within one year. However, post COVID-19, there has been considerable changes in the maturity profile, both on the asset and liability side. VFSL was required to give blanket moratorium to all the borrowers both under phase 1 till May 31, 2020 and phase 2 till August 31, 2020 and in turn has received moratorium from ~82 percent of its lenders under phase 1 and ~30 percent under phase 2. VFSL's collections have remained subdued, albeit showing an improving trend since April 2020.

The company has demonstrated its ability in past to raise liquidity through measures such as securitization/PTCs and Direct assignment transactions, besides on balance sheet funding. VFSL has managed to receive sanctions (term loans and ECBs) of ~Rs.220 Cr. since March 2020, post COVID-19 outbreak. The company has liquidity buffers (unencumbered cash/bank balances/ fixed deposits) of ~Rs.130 Cr. as on March 31, 2020. Acuite believes, that while liquidity buffers appear adequate at the current juncture, the attainment of optimal collection efficiency will be crucial to the maintenance of a stable liquidity profile. The stance of the lenders and PTC holders will also be critical in the event of sustained challenges in attaining optimal collection efficiency.

Outlook: Negative

Acuite believes that VFSL's credit profile could be under pressure on account of the slow pace of improvement in collection efficiency and the likelihood of elevated asset quality pressures over the near to medium term. The outlook may be revised to stable in case VFSL is able to demonstrate a significant and sustainable improvement in its collection efficiency levels resulting in a sizeable improvement in its liquidity buffers and lower than expected delinquencies. Conversely, continuing challenges in attaining optimal collection efficiency and higher than expected pressures on asset

quality could impart negative bias to the rating and result in a downgrade.

About the Rated Entity – Key Financials

Parameters	Unit	FY 20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	1006.0	966.7
Total Income*	Rs. Cr.	102.4	92.2
PAT	Rs. Cr.	35.1	29.2
Net Worth	Rs. Cr.	161.0	126.0
Return on Average Assets (RoAA)	(%)	3.6	3.4
Return on Average Net Worth (RoNW)	(%)	24.4	28.1
Total Debt/Tangible Net Worth (Gearing)	Times	4.7	6.2
Gross NPA [^]	(%)	0.9	0.3
Net NPA [^]	(%)	0.3	0

* Total income equals to Net interest income plus other income

[^]on AUM basis

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

CARE wide its Press release dated May 29, 2020 has classified VFSL as issuer not cooperating. The rating has been denoted as 'CARE BB+; Stable; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

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>
- Rating of commercial paper - <https://www.acuite.in/view-rating-criteria-54.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
November 27, 2019	Term Loan	Long Term	50.00	ACUITE A-/Stable (Assigned)
	Proposed Long term Bank facility	Long Term	450.00	ACUITE A-/Stable (Reaffirmed)
	Commercial Paper Programme	Short Term	20.00	ACUITE A2+ (Reaffirmed)
August 08, 2019	Proposed Long term Bank facility	Long Term	500.00	ACUITE A-/Stable (Assigned)
	Commercial Paper Programme	Short Term	20.00	ACUITE A2+ (Assigned)

*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	29-02-2020	-	28-02-2022	15.00	ACUITE A-/Negative (Assigned)
Term Loan	31-12-2019	-	31-12-2021	10.00	ACUITE A-/Negative (Assigned)
Term Loan	01-01-2020	-	31-12-2021	13.32	ACUITE A-/Negative (Assigned)

Term Loan	30-10-2019	-	30-10-2021	8.33	ACUITE A-/Negative (Assigned)
Term Loan	03-03-2020	-	02-03-2022	10.00	ACUITE A-/Negative (Assigned)
Term Loan	01-02-2020	-	01-02-2022	2.89	ACUITE A-/Negative (Assigned)
Term Loan	01-02-2020	-	01-02-2022	1.93	ACUITE A-/Negative (Assigned)
Term Loan	01-02-2020	-	01-02-2022	2.89	ACUITE A-/Negative (Assigned)
Term Loan	01-02-2020	-	01-02-2022	1.93	ACUITE A-/Negative (Assigned)
Term Loan	01-02-2020	-	01-02-2022	2.89	ACUITE A-/Negative (Assigned)
Term Loan	01-02-2020	-	01-02-2022	1.93	ACUITE A-/Negative (Assigned)
Term Loan	18-02-2020	-	18-02-2022	2.90	ACUITE A-/Negative (Assigned)
Term Loan	18-02-2020	-	18-02-2022	1.93	ACUITE A-/Negative (Assigned)
Term Loan	18-02-2020	-	18-02-2022	2.90	ACUITE A-/Negative (Assigned)
Term Loan	18-02-2020	-	18-02-2022	1.93	ACUITE A-/Negative (Assigned)
Term Loan	19-03-2020	-	18-03-2020	3.0	ACUITE A-/Negative (Assigned)
Term Loan	19-03-2020	-	18-03-2020	2.0	ACUITE A-/Negative (Assigned)
Term Loan	17-02-2020	-	17-02-2021	18.43	ACUITE A-/Negative (Assigned)
Term Loan	29-02-2020	-	28-02-2022	10.00	ACUITE A-/Negative (Assigned)
Term Loan	05-09-2019	-	04-03-2021	6.33	ACUITE A-/Negative (Assigned)
Term Loan	23-03-2020	-	18-03-2022	10.00	ACUITE A-/Negative (Assigned)
Term Loan	30-11-2019	-	29-11-2021	31.82	ACUITE A-/Negative (Assigned)
Term Loan	19-03-2020	-	18-03-2022	15.00	ACUITE A-/Negative (Assigned)
Term Loan	14-10-2019	-	13-01-2023	18.89	ACUITE A-/Negative (Assigned)
Term Loan	31-10-2019	-	31-10-2021	21.27	ACUITE A-/Negative (Assigned)
Term Loan	27-09-2019	-	26-03-2023	19.39	ACUITE A-/Negative (Assigned)
Term Loan	29-02-2020	-	28-02-2023	25.00	ACUITE A-/Negative (Assigned)
Term Loan	26-12-2019	-	26-12-2021	15.00	ACUITE A-/Negative (Assigned)
Term Loan	14-02-2020	-	14-07-2023	9.00	ACUITE A-/Negative (Assigned)
Term Loan	23-09-2019	-	22-12-2022	9.24	ACUITE A-/Negative (Assigned)
Term Loan	19-09-2019	-	18-12-2022	18.89	ACUITE A-/Negative (Assigned)
Term Loan	NA	-	NA	50.00	ACUITE A-/Negative (Assigned)

Term Loan	06-12-2019	NA	06-12-2022	50.00	ACUITE A- /Negative (Reaffirmed) (outlook revised from Stable to Negative)
Proposed Long term Bank facility	NA	NA	NA	85.97	ACUITE A- /Negative (Reaffirmed) (outlook revised from Stable to Negative)
Commercial Paper Programme	NA	NA	NA	20.00	ACUITE A2+ (withdrawn)

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About Acuité Ratings & Research:

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