

May 22, 2015

Facilities	Amount (Rs. Crore)	Rating
Term Loans	93.00	SMERA BB/Stable (Assigned)
Term Loan (proposed)	7.00	SMERA BB/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB**' (read as SMERA double B) to the Rs.100.00 crore bank facilities of Vedika Credit Capital Limited (VCCL). The outlook is '**Stable**'. The rating derives comfort from the company's experienced management, sound asset quality and comfortable capitalisation level. However, the rating is constrained by the company's geographically concentrated operations, modest earnings profile and limited resource base. The rating notes that the company is exposed to regulatory risks inherent in the microfinance sector.

VCCL is a non-deposit-taking non-banking financial company (NBFC) registered with RBI to provide loans to joint liability groups (JLG) and individuals. The company commenced microfinance operations in 2007. VCCL benefits from its experienced management. Mr. Gautam Jain, managing director of VCCL, has around 15 years of experience in the financing business. The company's second line of management includes professionals with extensive experience in the banking and finance sector.

VCCL has maintained sound asset quality on the back of its efficient ground level processes and real-time management information system. The company's 30+ days past due (dpd) stood at 1.33 per cent (provisional) as on March 31, 2015, as against 1.85 per cent as on March 31, 2014. VCCL's loan portfolio comprises JLG loans (~59 per cent) and individual loans (~41 per cent). The company will continue to focus on JLG financing in an attempt to maintain sound asset quality.

VCCL is comfortably capitalised for its current scale of operations. The company's net worth stood at Rs.17.27 crore (provisional) as on March 31, 2015, as against Rs.16.64 crore as on March 31, 2014. The company's gearing increased to 4.76 times (provisional) as on March 31, 2015 from 3.08 times as on March 31, 2014.

With portfolio concentration in Jharkhand and Bihar at ~68 per cent and ~30 per cent, respectively (as on March 31, 2015) the company remains exposed to geographical concentration risk. However, the company has set up branches in West Bengal (in FY2014–15) to reduce the risk to a certain extent.

VCCL's modest earnings profile is reflected in the operating income of Rs.14.17 crore in FY2014–15. The company's loan portfolio increased from Rs.50.73 crore as on March 31, 2013 to Rs.82.26 crore as on March 31, 2015. However, the interest spread declined marginally in FY2014–15 to 4.49 per cent from 5.80 per cent in FY2013–14.

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VCCL is currently funded by Indian Overseas Bank and MAS Financial Services Limited, which accounts for ~91 per cent of the total funding as on March 31, 2015. The company has recently received funding of ~Rs.2.00 crore from SIDBI and is actively looking for new source of funds.

Rating Sensitivity Factors:

- Improvement in scale of operations and earnings profile
- Sound maintenance of asset quality
- Geographical diversification
- Influence of adverse regulatory changes in the microfinance industry

Outlook: Stable

SMERA believes VCCL will maintain a stable business risk profile over the medium term on the back of experienced management and sound asset quality. The outlook may be revised to 'Positive' in case the company achieves substantial improvement in resource and earnings profile while maintaining sound asset quality and adequate capitalisation. The outlook may be revised to 'Negative' in case of deterioration in the company's asset quality, earnings profile or capital structure.

About the Company

VCCL, incorporated in 1995, is a Ranchi-based non-deposit-taking non-banking financial company (NBFC) registered with RBI. The company was previously engaged in the business of two-wheeler financing. Promoted by Mr. Gautam Jain, the company began microfinance operations in 2007 and provides loans to joint liability groups (JLG) and individuals.

VCCL's borrower base comprises 77,567 members as on March 31, 2015. The company has 25 branches across 15 districts of Jharkhand, Bihar and West Bengal and is headed by an experienced team. The company's board members include Mr. Gautam Jain, Mr. Vikram Jain, Mr. Ummedmal Jain, Mr. P. K. Chaturvedi (ex-GM, Indian Overseas Bank), Mr. Sanjay Kumar Somani and Mr. Satish Kumar Singh.

For FY2014–15, VCCL reported profit after tax (PAT) of Rs.0.64 crore (provisional) on operating income of Rs.14.17 crore (provisional), as compared with PAT of Rs.0.08 crore on operating income of Rs.11.23 crore in the previous year. The company's net worth stood at Rs.17.27 crore as on March 31, 2015, as against Rs.16.64 crore in the previous year.

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