CARE Ratings
Professional Risk Opinion

20 PLUS YEARS Analytical Excellence

CARE/KRO/RR/2016-17/1044

Mr. Gautam Jain
Managing Director
Vedika Credit Capital Ltd.
406, Shirlok Complex, H. B. Road,
Ranchi – 834 001
Jharkhand

May 18, 2016

Confidential

Dear Sir,

Grading of Micro Financing Institution (MFI)

Please refer to our letter dated May 03, 2016 on the captioned subject.

2. As already advised, our Rating Committee has assigned a grading of **'MFI 3+' (MFI Three Plus)** to your organisation.
3. The rationale for the grading is enclosed as an **Annexure - I** to this letter.
4. CARE's grading is an opinion of CARE on the relative capability of the organisation to undertake micro-financing activity and does not constitute a recommendation to buy, hold or sell any financial instrument issued by the organisation or to make loans/ donations/ grants to the said organisation.

Thanking you,

Yours faithfully,

(S. Das)
Dy. Manager

(U. Nopany)
Manager

Encl. – As above

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CIN-L67190MH1993PLC071691

Annexure-I

Vedika Credit Capital Ltd.
MFI Grading Report

Year of incorporation	1995	**'MFI 3+'** **(MFI Three Plus)** Fourth on an eight point scale with "MFI 1" being the highest and "MFI 5" being the lowest
Legal status	Public Limited Company (unlisted)	
Year of commencement of microfinance operations	2007	
Lending model	Joint Liability Group (JLG)	
Managing Director	Mr. Gautam Jain	
Number of states of operation	4 states (as on Dec.31, 2015)	
Branches	44 (as on Dec.31, 2015)	
Employees	217 (as on Dec.31, 2015)	

CARE has assigned grading of 'MFI 3+' to Vedika Credit Capital Ltd. (VCCL). The grading is assigned on an eight point scale with 'MFI 1' being the highest and 'MFI 5' being the lowest. There is no individual definition for each grading. CARE's MFI grading is a measure of overall performance of the MFI based on TOSS framework.

Credit Analysis and Research Ltd

May 10, 2016

TOSS FRAMEWORK

Transparency	
	Average

1. Registered as an NBFC-MFI. Legal form is subjected to greater regulatory norms and reporting.
2. VCCL has four directors out of which three are promoter directors and one additional director. The board meets on a monthly basis.
3. Presence of an Internal Audit Committee.
4. Lending and credit policies are well-established and communicated. The borrowers are aware of the lending policies of the company.
5. Transparency in lending process and monitoring of end use of funds is adequate.
6. Unqualified and satisfactory audit report from external auditor. Separate internal audit team is in place with 12 member audit team headed by a director reporting directly to the board. Internal audit of branches is conducted on a monthly basis and the report is directly submitted to the Board of Directors and audit committee.
7. Overall disclosures are moderate.

Operational Setup	
	Above Average

8. VCCL is primarily owned by the family members of the promoters - Mr. Gautam Jain, Mr. Vikram Jain and their father Mr. Ummedmal Jain. The promoters are professionally qualified belong to same family. They are now managing the affairs of the company along with the help of experienced professionals. All the promoters have an overall experience of more than 10 years in MFI business.
9. Well defined organization structure with clear demarcated roles and responsibilities. However, overlapping of role exists.
10. Training & staff development is handled by internal members as well as external professionals at times. Recruitment and promotion policies are well established.
11. The company provides performance incentives based on the amount of disbursement. However, the incentives are not based on the quality of assets.
12. The number of cases per loan officer is moderate.
13. Credit appraisal process is handled only by the HO. The branches collect and share the data and information relating to the proposed and existing borrowers. The credit bureaus checks and final appraisal is done by the HO and communicated to the branches.
14. Adequate loan appraisal & monitoring systems.
15. Moderate system for tracking over-dues and collection of delinquent loans after escalation depending on duration of overdue.
16. Risk management systems are in place & commensurate with the size of the operation. The company takes insurance for cash in transit and a cash limit of Rs.1 Lakh is set per loan officer.
17. The branches maintain cash safe at their premises.
18. Adequate management information system. A separate MIS team handles the data flow. Back-up is stored on a server in the HO and a second line of back-up is stored on a hard disk.
19. The branches are computerized and run on specialized software, BIJLI, which generates most of basic reports on a real time basis. The software was developed by FORCETEM Technologies. The software is used for both operational and financial consolidation.
20. The HO generally transfers funds through NEFT to the bank account of borrowers. However, cheques are issued in favour of the borrowers who do not have bank accounts in designated bank.
21. A separate bank account is maintained for each branch and the HO transfers the funds to the branch either through NEFT / RTGS / cheques to the branches only for meeting operational expenses. The amount collected by the branches from the borrowers is deposited into the bank account of the branch on a daily basis.

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22. The role of the branches is restricted to identification of area, selection of borrowers, documentation, disbursement of loan to clients and recovery. 23. The attrition rate was low at 5.8% in FY15.	
Scale of Operations	
	Small
24. The operations of VCCL is spread over 27 districts across four states (Bihar, Jharkhand, West Bengal and Uttar Pradesh). As on Dec.31, 2015, VCCL has outstanding loan portfolio of Rs.114.58 crore. Majority of the portfolio (95%) is concentrated in Bihar and Jharkhand. 25. Moderate borrower base. As on Dec.31, 2015 covered 65,923 active borrowers 26. Post the RBI circular on operations of NBFC-MFI, the regulatory uncertainty prevailing in the microfinance sector has reduced considerably. Further, post the AP ordinance, there has been no such incident in any other state.	
Sustainability	
	Above Average
27. Legal form allows equity infusion from investors. 28. VCCL has a non-restricted funding profile as it has raised funds from seven banks/FI's. 29. Satisfactory asset quality with PAR>30 days being 1.17%, as on Mar.31, 2015 and improved to 0.82% as on Dec.31, 2015. Gross NPA (%) for the year ended Mar.31, 2015 was 0.24%. 30. CAR was satisfactory at 20.92% as on Mar.31, 2015 and was at 17.59% as on Dec.31, 2015 31. Reasonable second line of leadership. 32. Presence in areas with moderate level of penetration of MFIs. 33. ROTA was low at 0.48% as on FY15 (as against 0.12% as on FY14).	

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GRADING RATIONALE

Brief Profile of the organization

Vedika Credit Capital Limited (VCCL) was incorporated in 1995. VCCL is a (Non-Deposit taking) Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI) registered with Reserve Bank of India (RBI). Till February 2004, VCCL was involved in the business of stock broking. In February 2004, Jain family (present owners) took over the company and terminated the business of stock broking. The promoters started microfinance operations in VCCL from July 2007 by taking over micro loans portfolio from group entities i.e. Sidvik Finance, Sidvik Enterprises and New Age Services.

VCCL started its microfinance programme through individual lending under the scheme shop keeper loans. Later, VCCL also started lending through Joint Liability Group (JLG) model. In order to reduce reliance on funding to individuals, the management is currently focusing more on JLG funding.

As on March 31, 2015, VCCL has 47,299 active borrowers with a net portfolio outstanding of Rs.82.3 crore. VCCL is currently operating in urban and semi urban areas of 27 districts (as on Dec.31, 2015) spread across Jharkhand, Bihar, West Bengal and Uttar Pradesh.

TRANSPARENCY

VCCL is an NBFC-MFI which received the RBI classification in June 2015. The current promoters have an aggregate experience of around a decade in micro-financing activity. The four members board is headed by Mr. Gautam Jain, Managing Director. Mr. Jain along with two other founder directors - Mr. Vikram Jain and Mr. Ummedmal Jain and another additional director, Mr. Praveen Kr. Chaturvedi looks after day-to-day operations of the company. Mr. Gautam Jain has done Masters of Business Administration and has more than fifteen years of experience in financing business through its sole proprietorship entity. Mr. Vikram Jain and Mr. Ummedmal Jain, Directors of VCCL, are also having long experience in financing business.

The company has framed a very transparent lending policy and the borrowers are provided with pass books where the rules and bye-laws are mentioned. The rules and regulations in relation to the lending policies are also displayed at the branches of the company through large boards. Since the company lends to JLG groups, the borrowers sign a JLG agreement. The company also runs background checks through Credit Bureaus (HighMark) and the borrowers are aware of the lending policies.

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Credit and Human Resource (HR) policies are clearly defined and documented and are reviewed periodically by the board. Policy is verbally communicated during group meetings, training sessions & small booklets distributed among members. HR policies encompass recruitment and selection, induction and training, performance management and compensation management. Separate Internal audit team is in place with 12 internal auditors, guided by a director. Internal audit of branches is conducted on a monthly basis and the report is directly submitted to the Board of Directors and audit committee. Internal Audit staff members are chosen from the field staff.

Lender wise tagging of portfolio is done by the company and it submits information as per the requirement of lender in relation to disbursement and delinquency on monthly/ quarterly basis to the banks.

The company is not regularly submitting operational and financial information to external associations and agencies like Sadhan, Mix Market, MFIN. Moreover, it is in the process of developing its website to bring in more transparency in the system.

OPERATIONAL SETUP

The promoters have around 10 years of experience in the microfinance sector. Board of directors includes an additional director with 30 years of professional experience and rich educational background. VCCL has well-defined organization structure with a seven-tier reporting hierarchy, whereby, it has credit officers, branch managers, area managers, cluster managers, Chief Operating Officer (COO), MD and the board.

VCCL uses Joint Liability Group (JLG) model for its lending activities. It enrols only women members and organizes them into groups of five. A Compulsory Group Training (CGT) of two days is provided to the clients prior to lending to them. CGT is followed by Group Recognition Test (GRT) and the Credit Bureau (CB) check. Only when a group qualifies the GRT and also the members qualify the lending criteria, loan is provided to them. The loans are provided on the basis of a joint liability accepted by the members for their respective groups. The disbursements are made by Head-Office (HO) to the branches through NEFT transactions and the branch then directly disburse the amount to member's bank account (maintained in designated bank accounts) and the collections are undertaken in monthly centre meetings. For the member not maintaining the bank account with designated branches, the branch issues the cheques to such members.

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Collection is done on a monthly basis in group meetings by the credit officer as per the demand collection sheet. Entry is done in the individual loan book. The cash is submitted to BM which is then reconciled and deposited in to the HO bank account. Overdue statement is prepared every day and BM guides overall course of action for collection of overdue. Weekly overdue statement is sent to HO through Business Information Justified and Logically Integrated (BIJLI) software and email.

The branches conduct loan utilization checks frequently by physical visit to the borrowers. The report of the visit is prepared and sent to the HO.

Cash vaults for safe keeping of cash available at every branch. The company has insurance on cash-in-transit.

The company has a separate training department and different types of training including induction/orientation training, on-the-job training, periodic training and other special training is provided by the company. This apart, company brings external professionals also to impart training to its employees.

The attrition rate for the company was low at 5.8% in FY15.

The company provides performance incentives based on the amount of disbursement. However, the incentives are not based on the quality of assets.

All the data/MIS provided by the branches are processed in the HO by the separate MIS team and the data back-up are stored on the server in the HO and a second line of back-up is stored on a hard disk. All branches connect to the HO through BIJLI software and emails. VCCL has adequate IT infrastructure in place to support its growing scale of operation. VCCL uses BIJLI software which is a specialized software prepared by FORCETEM Technologies. All types of reports including overdue report and demand collection report at branch level can be generated within a short span of time. The software is also used for financial consolidation and reporting.

Some of the important reports generated are

Financial data;

1. Disbursement detail, 2. Transaction history, 3. Purpose wise loan detail.

Operational Data

1. Portfolio aging, 2. Performance report, 3. Loan status, 4. Branch performance, 5. Party ledger of loan account.

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SCALE OF OPERATIONS

The operational details are provided below

Key Factors	As on Dec.31, 2015
Client base (Number)	1. Women (100%) groups in rural, semi urban and urban areas. 2. Active groups stood at 7,716. 3. Active individual borrowers stood at 65,923.
Assets under management	1. Outstanding portfolio stood at Rs.125.47 crore as on Dec.31, 2015.
Geographical diversification	1. The operations of VCCL is spread over 27 districts across 4 states (Jharkhand, Bihar, West Bengal and Uttar Pradesh). Majority of the portfolio (around 95%) is concentrated in Bihar and Jharkhand.
Total income	1. Total income stood at Rs.15.57 core in FY15.

SUSTAINABILITY

Financial Sustainability

Financial Performance (Rs. crore)	FY13	FY14	FY15
Net worth	15.45	16.64	16.96
Total Income	12.46	12.83	15.57
Total operating expenses	3.81	4.30	5.25
Financial Cost	7.94	8.16	9.66
Depreciation	0.05	0.06	0.07
Net surplus (PAT)	0.45	0.08	0.41
Loan outstanding (Portfolio)	50.73	54.88	82.26
Key ratios (%)			
PAT (after defd tax) / Total Income	3.63	0.65	2.66
Return on total assets	0.70	0.12	0.48
Operational Self- Sufficiency	105.99	102.97	104.44
Interest income/Interest earning assets	20.47	18.70	20.92
Interest / Avg. borrowed funds	15.94	15.58	14.21
Interest spread	4.53	3.12	6.71
Operating Expenses / Total capital employed	6.05	6.38	6.28
Capital adequacy ratio	27.95	31.08	20.92
PAR > 30 days	1.68	1.30	1.17
PAR > 90 days	0.75	0.58	0.60

Operational Sustainability	
Second line of leadership	1. Senior members have strong experience in fields like banking, MFI, etc. 2. Involved in strategic decisions as they have developed a good understanding of the microfinance sector.
Competition	3. VCCL is serving area with moderate level of MFI penetration.
Loan products	4. VCCL generally extends three type income generating loans to individuals.
Access to funds and ability to raise funds	5. Has been successful in accessing funds from various private/public sector banks and financial institutions.
Vision	6. In coming years, VCCL has plans to expand its branch network and reduce its

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	concentration in Bihar and Jharkhand.
Efforts to increase outreach and coverage	7. VCCL has projected substantial increase in its income from micro-financing activities with proposed scaling up of its operations, on the back of higher term loans availed from banks/FIs.

Industry Outlook and Competition

Post the AP crisis and regulatory intervention by RBI, the microfinance sector has seen strong growth in loan portfolio on account of improving funding profile, control over operating expenses, improving margins and moderate leverage levels.

RBI has revised the lending norms for the MFI sector, post Andhra Pradesh (AP) crisis in 2010 and Malegam Committee Report on NBFC-MFI in 2011. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. MFI sector saw 30+ days past due (DPD) of around 0.25% as on March 31, 2015. As on the same date, aggregate gross loan outstanding for the sector was Rs.40,138 crore, registering 61% Y-o-Y growth from Rs. 24,862 crore as on March 31, 2014. (Source: MFIN) The stabilization of the regulatory regime has led to a renewed interest from both domestic and foreign funds in the sector. In the recent past, the sector has witnessed strong capital inflows.

Also post upward revision in loan ticket-size (from Rs.35,000 to Rs.60,000 for 1st cycle and from Rs.50,000 to Rs.100,000 for subsequent cycle), household income (from Rs.60,000 to Rs.100,000 for rural region and from Rs.120,000 to Rs.160,000 for urban & semi-urban region) and borrowing limit for individual borrower (from Rs.50,000 to Rs.100,000) by RBI would aid in the growth of the loan portfolio of MFIs as it widens the base of borrowers and significantly increases the addressable market size. Furthermore, resources are not seen as a major constraint given the significant capital infusion in recent times. If MFIs manage to control the asset quality of their portfolio while adhering to new guidelines, the profitability of the sector is expected to improve with the benefits of operating leverage. Credit view will continue to factor in risks associated with unsecured lending, socio-political intervention, geographic concentration and operational risks related to cash based transaction.

<u>Asset Quality</u>

Although VCCL has been lending to a high risk segment, it has been able to maintain a reasonable track record. Asset quality is comfortable with portfolio at risk greater than 30 days (PAR>30 days) at 1.17% as on Mar.31, 2015 as against 1.30% as on Mar.31, 2014 and 1.68% as on Mar.31, 2013. The company makes 10%, 25%, 50% and 100% provisions for

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delays of 31-60 days, 61-90 days, 91-120 days and greater than 120 days, respectively. Gross NPA (%) for the year ended Mar.31, 2015 was 0.24%.

Capital Adequacy Ratio (CAR)

Year ended	Mar.31, 2013	Mar.31, 2014	Mar.31, 2015	Dec.31, 2015
Overall CAR (%)	27.95	31.08	20.92	17.59

ANNEXURE I

Product Profile

Product Name	Unnati 1	Unnati 2	Unnati 3
Client	Individual Women through JLGs		
Age Limit (yrs)	18-59	18-59	18-59
Tenure months)	12 months	15 months	18 months
Loan Size (Rs.)	14,700	25,400	29600
Repayment	Monthly	Monthly	Monthly
Interest Rate	25.40% on reducing balance	25.88% on reducing balance	25.74% on reducing balance
Processing Fees	1% of loan plus service tax	1% of loan plus service tax	1% of loan plus service tax

ANNEXURE II - ***Profile of Board of Directors of VCCL***

Name & Designation	Age	Qualification	Experience
Gautam Jain (Managing Director)	45 years	MBA	Mr. Gautam Jain, a postgraduate in business administration, possesses over 20 years of overall business experience (of which around 10 years is in MFI business). He has experience in several fields including experience of running a Jute Mill, exclusive used car showrooms and acting as direct selling associate of ICICI Bank through a proprietorship concern. He is one of the promoters of VCCL and is currently involved in the organization as the Managing Director.
Vikram Jain (Director)	41 years	B. Com.	Mr. Vikram Jain is a commerce graduate with 15 years of experience, of which around 10 years is in MFI Business. He has experience of running a food grain business and financing business through a sole proprietorship firm. He is one of the promoters of the company and is currently involved as Chief Operating Officer and director of VCCL.
Ummedmal Jain (Director)	69 years	LLB	Mr. Ummedmal Jain is an advocate and has practiced in Patna High Court. This apart, he has experience of doing food grain business and has done financing business through a sole proprietorship concern. He has overall business experience of 30 years with around 10 years of experience in MFI business. He is one of the promoters of the company and is presently involved as Credit and Legal Head, Chairman and Director of VCCL.
Mr. Praveen Kr. Chaturvedi (Additional Director)	65 years	M. Sc., LLB	Mr. Praveen Kr. Chaturvedi is a post graduate in science and an advocate. He is the retired General Manager of Indian Overseas Bank with around 36 years of experience in the banking industry. He is an additional director in the company.

ANNEXURE III - ***Operational outreach***

For the period ended / As on,	Mar.31, 2013	Mar.31, 2014	Mar.31, 2015
Number of states	2	2	3
Number of districts	10	14	15
Number of villages	27	35	37
Branches	10	19	27

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For the period ended / As on,	Mar.31, 2013	Mar.31, 2014	Mar.31, 2015
Number of active JLG	1140	1691	6711
Number of active JLG members	32750	33416	47299
Number of active JLG borrowers	32750	33416	47299
Loan Portfolio			
Amount of loan disbursed during the year (Rs. crore)	37.67	38.30	66.49
Receivables due during the year (Rs. crore)	31.87	34.60	39.68
Receivables recovered during the year (Rs. crore)	31.45	34.15	39.10
Recovery rate (%)	98.68	98.70	98.83
Portfolio at risk (PAR) >30 days (%)	1.68	1.30	1.17
Portfolio at risk (PAR) >90 days (%)	0.75	0.58	0.60
Total outstanding loan portfolio (Rs. crore)	50.73	54.88	82.26

ANNEXURE IV - *Details of Banks/Financial Institutions (as on Dec.31, 2015)*

(Rs. crore)

Sl. No.	Banks / Financial Institutions	Sanctioned Amount	O/s amount
1	Indian Overseas Bank	135.00	60.82
2	MAS Financial Services	49.00	35.96
3	Allahabad Bank	4.00	3.89
4	IFMR Capital	10.00	5.20
5	Reliance Capital	3.00	2.05
6	SIDBI	1.00	0.97
7	Oriental Bank of Commerce	4.00	4.00
	Total	206.00	112.89

Annexure V: MFI Grading Symbols

Grading Symbol*	
MFI 1	Highest
MFI 2+	↓
MFI 2	
MFI 3+	
MFI 3	
MFI 4+	
MFI 4	
MFI 5	Lowest

* There is no individual definition for each grading

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