

Rating Rationale

Vedika Credit Capital Ltd

30 Aug 2018

Brickwork Ratings revises rating for the Bank Loan Facilities amounting to Rs. 120 Crs of Vedika Credit Capital Ltd

Particulars:

Facility Rated	Amount (Rs. Crs)		Tenure	Rating *	
	Previous	Present		Previous	Present
Fund Based	120.00	120.00	Long Term	BWR BBB (Pronounced BWR Triple B) Outlook: Stable	BWR BBB+ (Pronounced BWR Triple B Plus) Outlook: Stable <i>(Upgraded)</i>
Total	120.00	120.00	INR One Hundred Twenty Crores Only		

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Rating Sensitivities:

BWR has principally relied upon the audited financial results of the company up to FY18, projected financial statements, publicly available information and information/clarifications provided by the company.

The rating upgrade takes into account the growth in Asset Under Management and improvement in company's operational & financial performance.

The rating continues to draw comfort from the experience of promoters, healthy capital adequacy ratio & asset quality indicators, increased earnings quality & profitability, diversified loan book and robust management information systems in place. The rating, however, is constrained on account of increasing amount of debt to support growth, which will result into higher short term debt obligations and vulnerability to regulatory & political risks.

Going forward the ability of the company to further increase its AUM (assets under management) and TNW (including Tier II capital) as projected while maintaining asset quality and maintain the growth in income and profitability shall remain key rating sensitivities.

Key Rating Drivers:

Operational Performance/Efficiency: VCCL has expanded its active borrowers base significantly which stood at 2.16 lakhs as on June 30, 2018, increased from 1.19 lakhs borrowers as on March 31, 2017.

Borrowers/Branch has remained around 2000 and average loan outstanding/branch is in the range of Rs. 3-3.50 Crs over the last two years. While, Operating Expenses as a % of GLP (own portfolio only) has increased to 8.05% as the company has expanded majorly in the last two years, Operational Self-Sufficiency has remained range bound in the range of 105%-110% over the past four years.

Increased Revenue & Profitability: With considerable growth in Portfolio, Interest Income of the company increased by 56% during FY18 leading to a significant increase in the net interest income and PAT also. AUM of the company increased by close to 66% from Rs. 285.19 Crs as on March 31, 2017 to Rs. 474.56 Crs as on June 30, 2018. Own portfolio has also increased significantly from Rs. 211 Crs as on March 31, 2017 to Rs. 341 Crs as on June 30, 2018, growth of 62%. NIM has remained in the range of 9%-10%, while ROA and ROE have shown improvement.

Healthy CRAR: Vedika has maintained its CRAR at above 20% over the past three years. There has been an equity infusion of Rs. 9.05 Crs during FY18 and with that the Networth has increased to Rs. 64.30 Crs with a CRAR of 24.90% as on March 31, 2018. Tier I CRAR was 14.87%.

Asset Quality: Post demonetization, the asset quality of the company witnessed some deterioration and the company reported delinquencies at 90+dpd at 0.28% in FY17. The delinquencies further increased in FY18 and were as high as 1.59% during FY18. Since then, the situation has however, improved with the company being able to make recoveries leading to better recovery rates. Delinquencies at 90+dpd improved to 0.52% as on June 30, 2018 and recovery rate improved to 98.71%. Further improving the asset quality and maintaining collection efficiency is a key factor.

Increasing Debt: VCCL expects to reach AUM of more than Rs. 900 Crs with a branch network of 250 branches by end of FY19. In order to support the company's aggressive expansion plans, debt in the company's books will increase significantly. Total Debt of the company is expected to reach Rs. 500 Crs by end of FY19 and Rs. 700 Crs by end of FY20. This will also result in significant short term debt obligations for the company which may put pressure on its profitability as well. Leverage of the company has remained ~ 6-6.50x over the last four years and any further deterioration in the same will be considered negative. VCCL, however, is likely to support the growing debt by consistent equity infusion as also demonstrated in the past

Analytical Approach: BWR has assessed the company on standalone basis. Please refer to the applicable criteria at the end.

Rating Outlook: Stable

BWR believes that Vedika Credit Capital Ltd's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the company shows considerable improvement in AUM

without any deterioration in asset quality and capital structure. The rating outlook may be revised to 'Negative' if the asset quality and capital structure deteriorates with lower than expected growth in AUM.

About the Company:

Vedika Credit Capital Ltd (Vedika) was incorporated in March 1995 at Kolkata and is engaged in microfinance operations since 2007. Vedika was registered as an NBFC-MFI with RBI in June 2015. Previously, the company was engaged in asset financing primarily two-wheeler financing. Vedika’s operations are currently spread over 6 states i.e. Uttar Pradesh, Jharkhand, Bihar, West Bengal, Assam and Odisha.

It has a base of 2.16 lakhs active borrowers and Asset under Management (AUM) of ~ Rs. 475 Crores as on June 30, 2018 (including managed portfolio of Rs. 133.57 Crs), managed through a network of 112 branches. The company is engaged into Individual Lending as well as lending through Joint Liability Group (JLG) model.

Vedika is promoted by Mr. Ummed Mal Jain and his sons – Mr. Gautam Jain & Mr. Vikram Jain. The promoters are highly experienced and have also hired qualified professionals to manage the business.

Company’s Financial Performance:

During FY18, the promoters have infused fresh capital amounting to Rs. 3.12 Crs at a premium of Rs. 5.93 Crs. The revenue generation and profitability have improved significantly in FY18 on account of growth in the outstanding portfolio.

Key Financial Figures			
Particulars	Unit	FY17 (A)	FY18 (A)
AUM	Rs. Crores	285.19	446.19
Own Portfolio O/S	Rs. Crores	210.95	320.67
Delinquencies - 90+dpd	%	0.28	1.59
Net Interest Income	Rs. Crores	18.77	31.53
PAT	Rs. Crores	3.42	5.52
Net Interest Margin	%	10.32%	9.85%
Tangible Net Worth [#]	Rs. Crores	40.08	64.30
CRAR	%	22.37%	24.90%

Tangible Net Worth is calculated after taking 50% of Tier II capital as part of networth.

Status of Non-Cooperation with Other CRAs: NA

Any other Information: NA

Rating History for the last three years:

Sl. No.	Facility	Current Rating (Aug 2018)			Rating History		
		Type	Amount (Rs Crs)	Rating	2017	2016	2015
1.	Term Loan	Long Term	120.00	BWR BBB+	BWR BBB	BWR BBB-	NA
Total			120.00	INR One Hundred Twenty Crores Only			

Hyperlink/Reference to Applicable Criteria:

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks & Financial Institutions](#)

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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt



instruments/bonds/bank loans, securitized paper of over ₹ 11,99,663 Cr. In addition, BWR has rated over 6819 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹48,803 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

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