



## Rating Rationale

### Vedika Credit Capital Ltd

05 March 2021

**Brickwork Ratings assigns BWR BBB/Stable to the sanctioned and proposed bank loan facilities of Vedika Credit Capital Ltd.**

#### Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
<b>Fund Based</b>			
<b>Term Loans</b>	181.46**	<b>Long Term</b>	<b>BWR BBB/Stable</b>
<b>Proposed Term Loan</b>	218.50		
<b>Total</b>	<b>400.00</b>	<b>INR Four Hundred Crores Only</b>	

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*\*Outstanding amount as on 31 January 2021.

Complete details of bond issues with outstanding ratings are in Annexure I

#### **RATING ACTION / OUTLOOK:**

Brickwork Ratings assigns BWR BBB/Stable to the sanctioned and proposed bank loan facilities of Vedika Credit Capital Ltd (VCCL or the company), as tabulated above.

The rating continues to draw comfort from experienced promoters, healthy overall financial risk profile and adequate liquidity profile. However, the rating is constrained by the Inherently modest credit profile of borrowers and risk from local socio-political issues in the microfinance sector and moderate asset quality.

BWR believes VCCL's credit risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of rating change over the medium term.

#### **Description of Key Rating Drivers**

- **Credit Strengths:**

**Experienced promoters:** The company is promoted by Mr. Umed Mal Jain, Mr Gautam Jain and Mr. Vikram Jain. They administer the overall management of the company. The promoters are qualified and have over two decades of entrepreneurial experience. The management of VCCL has a prudent lending approach that has supported growth in the company's portfolio. The promoters and management team of VCCL are proficient in the financial services space and seasoned through various business cycles.



**Healthy overall financial risk profile:** VCCL's capitalisation and earnings profile is moderate. The total capital adequacy ratio (CAR) stood at 28.77% as on 31 December 2020 (18.90% as on 31 March 2020). This is much higher than the minimum regulatory requirement of 15%, and the company is expected to remain well-capitalised for over the near term. The absolute tangible net worth (TNW) remains moderate and improved to Rs. 75.3 Crs as on 31 December 2020 from Rs. 52.31 Crs as on 31 March 2020. This improvement is due to an improvement in profitability and an additional capital infusion of Rs. 20 Crs. The debt/equity level has improved to 5.24 times as on 31 December 2020 from 8.27 times as on 31 March 2020 (6.29 times as on 31 March 2019). The company reported a marginal increase in profits, with the reported profit after tax (PAT) of Rs. 3.81 Crs for 9MFY21, vis-a-vis net loss of Rs. 17.16 Crs for FY20. The loss in FY20 was due to additional covid provisioning made in March 2020 and there was no operational loss. The promoters plan on infusing Rs 7 to 10 Crs of capital by March 2021.

**Adequate liquidity profile:** VCCL's liquidity profile is comfortable, with surplus cumulative mismatches across all the buckets for a year as per the ALM profile as of 31 December 2020. Furthermore, the company had cash and cash equivalents amounting to Rs. 23.45 Crs, liquid investments of Rs 8.59 Crs and undisbursed credit lines of Rs. 20 Crs as of 20 February 2021, ensuring the availability of adequate funds to meet short-term repayment obligations in case there is stress on collections, going forward, in the aftermath of the covid-19 pandemic. The customers of the company are small business owners engaged in essential services; hence, the impact of covid-19 is moderate. The collections efficiency improved to 98% in January 2021 from 20% in May 2020. The NBFC has also entered into securitisation of its portfolio to improve its liquidity position.

- **Credit Risks:**

**Inherently modest credit profile of borrowers and risk from local socio-political issues in microfinance sector:** A significant portion of the portfolio consists of microfinance loans to clients with below-average credit risk profiles and a lack of access to formal credit. Pressure on households' cash flow due to unforeseen circumstances may affect the repayment capability of these borrowers. However, this risk is partially offset by the use of the grameen model for lending. In the recent past, the microfinance sector witnessed high levels of delinquencies post-demonetisation and subsequent socio-political events. This indicates the fragility of the business model, vis-a-vis external risks. Since the business involves lending to the poor and downtrodden sections of the society, MFIs will remain exposed to socially sensitive factors, including charging high interest rates and consequently, to tighter regulations and legislation.

**Moderate asset quality:** The asset quality of the company continues to deteriorate, with increasing delinquencies. Given the increase in delinquencies during 9MFY21, the GNPA% (owned portfolio) rose to 2.59% as on 31 December 2020 from 1.81% as on 31 March 2020. The management took requisite corrective measures by strengthening collection and recovery processes and also created a separated credit, collection and



recovery team. BWR expects these measures to result in an improvement in the overall asset quality, going forward. However, given the covid-19-related risks, the company's ability to continue to improve collection efficiency and manage the asset quality in FY 21 will be a key monitorable.

### **Analytical Approach**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

### **RATING SENSITIVITIES**

The company's ability to grow its portfolio loan book while maintaining asset quality, profitability and liquidity, and improving the overall financial risk profile will be key rating sensitivities.

**Positive:** The company's ability to grow its loan portfolio and maintain its collection efficiency, asset quality, and profitability are key rating positives.

**Negative:** A higher-than-expected deterioration in asset quality or reduction in profitability are key rating negatives.

**Coronavirus disease (COVID-19),** declared a pandemic by the World Health Organization (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

### **Liquidity Profile: Adequate**

As on 20 February 2021, the company had cash and cash equivalent of Rs. 23.45 Crs, FDs of Rs 8.59Crs and unutilised credit lines of Rs 20 Crs. As per the ALM as on 31 December 2020, the cumulative mismatch across all time buckets of the loan portfolio is positive for the company, indicating an adequate liquidity position. The company has total debt repayments of Rs 67.28 Crs for February and March 2021. The company has total scheduled collections of Rs 74.35 Crs during this period. The liquidity is adequate to meet all of its repayment obligations.

### **About the Company**

Vedika Credit Capital Ltd ('VCCL' or 'the company') was incorporated in 1995. VCCL was registered as an NBFC with RBI in 1998 and the company was registered as an NBFC - MFI with RBI in June 2015. Currently headquartered at Ranchi, Jharkhand, the company's portfolio



covers 7 states - Uttar Pradesh, Jharkhand, Bihar, West Bengal, Odisha, Tripura and Assam with 192 total branches. The company provides finance through Joint Liability Group (JLG) loans and Individual loans to women micro entrepreneurs in semi urban and rural areas.. The company is promoted by Mr Ummed Mal Jain, Mr Gautam Jain and Mr Vikram Jain.

### Company Financial Performance

	Units	31 March 2019	31 March 2020
Key Parameters		Audited	Audited
Total Portfolio	Rs. Crores	561.42	615.22
Owned Portfolio	Rs. Crores	346.74	422.32
Net Interest Income	Rs. Crores	42.91	37.18
PAT	Rs. Crores	6.89	-17.16
Tangible Net Worth	Rs. Crores	70.18	52.31
CRAR	%	22.00%	18.90%
Gross NPA	%	0.43%	1.68%
Gross NPA (Owned Portfolio)	%	0.26%	1.81%
Net NPA	%	0.00%	0.00%
Net NPA (Owned Portfolio)	%	0.00%	0.00%

### Rating History for the last three years (including suspended/withdrawn rating)

S.No	Facility	Current Rating (March 2021)			Rating History		
		Type	Amount (₹ Crs)	Rating	Aug 2020	2019	Aug 2018
1.	Term Loans	Long Term	181.46**	BWR BBB/Stable	BWR BBB+/Stable (Reaffirmed) and simultaneously withdrawn	NA	BWR BBB+/Stable
4.	Proposed Term Loan		218.50			NA	
Total			400.00	₹ Thirty Three Crores and Fifty Lakhs Only			

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

### Hyperlink/Reference to applicable Criteria

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

Analytical Contacts	
<b>Nagesh.k</b> <b>Ratings Analyst</b> Board: 022-67456666 Ext: 657 nagesh.k@brickworkratings.com	<b>Anil Patwardhan</b> <b>Senior Director - Ratings</b> Board :+91 22 2831 1426, +91 22 2831 1439 anil.p@brickworkratings.com
<b>1-860-425-2742</b>	<b>media@brickworkratings.com</b>

### Annexure-I Details of Bank Facilities rated by BWR

S.No	Funding Agency	Facility	Amount O/S* (INR Crs)
1	Bank of Maharashtra	Term Loans	8.14
2	Canara Bank	Term Loans	2.4
3	Capital Small Finance Bank Ltd	Term Loans	4.9
4	Fincare Small Finance Bank Ltd	Term Loans	0.91
5	IDFC First Bank Limited	Term Loans	40.97
6	NABARD	Term Loans	30
7	NABFINs Limited	Term Loans	3.76
8	NABKISAN Finance Limited	Term Loans	13.4
9	Oriental Bank of Commerce	Term Loans	12.94
10	SIDBI	Term Loans	38.73
11	Suryoday Small Finance Bank Ltd	Term Loans	3.13
12	United Bank of India	Term Loans	3.74
13	Vijaya Bank	Term Loans	1.5
14	Yes Bank Limited	Term Loans	2.53
15	MUDRA	Term Loans	14.41
16	NA	Proposed Term Loan	218.54
<b>TOTAL</b>			<b>400.00</b>

**Rupees Four Hundred Crores Only.**

\*Outstanding amount as on 31 January 2021.



**For print and digital media** The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

### **About Brickwork Ratings**

Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters 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.

**DISCLAIMER :** Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect,



incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, [www.brickworkratings.com](http://www.brickworkratings.com). More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.