RATING RATIONALE

14 September 2022

Vedika Credit Capital Ltd

Brickwork Ratings reaffirms and withdraws the rating for the Bank Loan Facilities of Rs 467.16 Crs and withdraws the ratings for the Bank Loan Facilities of Rs.182.84 Crs of Vedika Credit Capital Ltd.

Particulars:

Facilities	Amount Rated (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (07 Jun 2022)	Present
Fund based Bank Loans: Term Loans	541.65	**467.16**	Long Term	BWR BBB/Stable (Reaffirmed)	**BWR BBB/Stable (Reaffirmed) and Withdrawn at the request of Company**
Fund based Bank Loans: Term Loans (Proposed)	108.35	**182.84**	Long Term	BWR BBB/Stable (Assigned)	**Withdrawn (on non utilization)**
Total	650.00	**650.00**		**Rupees Six Hundred Fifty Crores only**	

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
** Details of bank facilities provided in Annexure- I

RATING ACTION / OUTLOOK:

Brickwork Ratings (BWR) reaffirms and simultaneously withdraws the rating of the bank loan facilities amounting to Rs.467.16 Crs of Vedika Credit Capital Limited (VCCL or the company) as tabulated above, at the request of the company, no objection for the withdrawal of the rating conveyed by the lenders covering a major part of the outstanding exposure of bank loan facilities. BWR also withdrew the rating for the proposed bank loan facilities amounting to Rs 182.84 Crs on the basis of the confirmation from the company that the proposed portion of the rated bank loan facilities were not raised till date. The rating withdrawal is in line with BWR's policy on the Withdrawal of Ratings.

The rating action factors in growth in the Asset under Management (AUM) (owned and managed), experienced promoters, improvement in asset quality coupled with healthy provision, capital infusion by the promoters, improvement in the resource profile, adequate liquidity profile.

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.

The rating, however, is constrained by the modest scale of operations and moderate capitalisation, coupled with high gearing.

Going forward, the company's ability to increase the portfolio while maintaining the asset quality will be a key monitorable.
BWR has principally relied on audited financials upto FY22, publicly available information and information/clarifications provided by the company.

KEY RATING DRIVERS

Credit Strengths-:
Experienced and professional management:
The company is promoted by Mr. Ummed Mal Jain, Mr Gautam Jain and Mr. Vikram Jain, who have been associated with the microfinance lending sectors for almost three decades. The promoters are qualified and have over three 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.

Growth in loan book, coupled with improvement in asset quality:
The total AUM had increased to Rs 746 Crs as on 31 March 2022 as against Rs 512 Crs as on 31 March 2021, registering Y-o-Y growth of 45%. Owned portfolio improved by 70% to Rs 581 Crs as on 31 March 2022 as against Rs 341 Crs as on 31 March 2021. The total disbursements also increased from Rs 175 Crs in FY20-21 to Rs 449 Crs in FY 21-22. As on 31 March 2022, loans to the Joint Liability Group (JLG) constituted 76% of the total AUM and 97% of the managed portfolio.
The GNPA level had reduced in both the owned and total portfolio to 2.01% and 2.22%, respectively, as on 31 March 2022 as against 2.21% and 2.63%, respectively, as on 31 March 2021.

The company had made provisions for the entire GNPA portfolio, and hence, there is nil NPA. The GNPA had reduced substantially in the JLG segment from 2.83% as on 31 March 2021 to 1.37% as on 31 March 2022. As on 31 March 2022, 76% of the portfolio had 1.37% of NPA and remaining 24% has 0.64% of NPA, 92% of the portfolio was with nil overdues, and the majority of the NPA, i.e. Rs 6.70 Crs, was from the ticket size Rs 30,000- Rs 50,000 bucket, led by exposures from West Bengal, followed by Assam and Bihar.
The company takes off-book exposure through the business correspondent model for entities from various financial institutions and banks. It has also entered co-lending arrangements with major public sector banks to support its funding requirement. Going forward, AUM growth is expected mainly from the managed portfolio through co-lending arrangements and assists in diversifying its risk.

Improvement in financial performance and profitability metrics:
The company's net profit increased to Rs 23.25 Crs for FY22, as against Rs 4.71 Crs as on 31 March 2021 on account of increase in the total income from operations and the reversal of excess

provision of Rs 19 Crs in FY22. The ROE improved to 24.94% for FY22 as against 9.13% for FY21 in view of the increase in the net worth from Rs 87 Crs to Rs 105 Crs and substantial improvement in the PAT. The aggregate provision on the standard assets of ~Rs 20 Crs and gross Non performing assets of ~Rs 7.54 Crs stood at Rs 27.53 Crs as on 31 March 2021. Since the adequate provision was available for the loan portfolio as per the company's provision policy, the company reversed excess provision in FY22 amounting to Rs 19.00 Crs as on 31 March 2022.

Continued support from promoters, coupled with funds raising ability:
During FY21, the company had converted 68,15,000 compulsorily convertible preference shares of Rs 6.81 Crs into equity shares and also issued 237,375 fresh equity shares at a premium of Rs 30 per share. The total fresh equity infused during FY21 was Rs.30 Crs. The company had raised approximately Rs 500 Crs of funds from various Banks/FIs in FY22. The company had issued non-convertible debentures of Rs 20 Crs in August 2020 and was subscribed by PSU banks with a tenor of 3 years. The company's borrowing profile primarily consisted of term loans from banks 65.58%, followed by term loans from FIs/NBFCs.
The company's ability to raise capital, and maintain its capital adequacy and gearing levels will be monitorable.

Credit Risks-:
High leverage ratio:
During FY21, the company had converted 68,15,000 compulsorily convertible preference shares of Rs 6.81 Crs into equity shares and also issued 237,375 0f fresh equity shares at a premium of Rs 30 per share. The total fresh equity infused during FY21 was 30 Crs. With the improvement in TNW, the gearing had improved drastically from 8.22x as on 31 March 2020 to 3.85x as on 31 March 2021. In spite of the improvement in the TNW, the gearing was at 5.85x as on 31 March 2022 on account of an increase in the borrowings by 88%. The promoters have already infused Rs 4.50 Crs in the current FY upto 31 May 2022 in the form of equity shares. Going forward, the company's ability to increase the borrowing profile while bringing in proportionate additional capital and maintaining a low gearing will be a key monitorable.

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.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of Vedika Credit Capital Limited. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

The ability of the company to scale-up its portfolio while improving its asset quality, profitability metrics, maintaining comfortable capitalisation and adequate liquidity are key rating sensitivities.

Positive: Portfolio growth backed by stable asset quality, improvement in profitability, healthy capitalisation and gearing are key rating drivers.
Negative: Deterioration in profitability and asset quality will be the key rating sensitivities.

LIQUIDITY POSITION: ADEQUATE

As on 31 March 2022, the company had cash and bank balance of Rs. 50.90 Crs, unencumbered fixed deposits of Rs 11 Crs and unutilised credit lines of Rs 5 Crs. As per the asset liability management statement (ALM) as on 31 March 2022, the cumulative mismatch across all the time buckets of the loan portfolio was positive for the company, indicating an adequate liquidity position. The company has total debt repayments of Rs 163 Crs from April 2022 to September 2022, against which it has scheduled collections of Rs 150 Crs. The liquidity seems adequate to meet its repayment obligations over the near term.

COMPANY PROFILE

Vedika Credit Capital Ltd (VCCL) was incorporated in 1995. VCCL was registered as an NBFC with the RBI in 1998, and the company was registered as an NBFC - MFI with the RBI in June 2015. Currently headquartered at Ranchi, Jharkhand, the company's portfolio covers seven states - Uttar Pradesh, Jharkhand. Bihar, West Bengal, Odisha. Tripura and Assam with 192 total branches. The company provides finance through JLG loans, individual loans and consumer durables 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.

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY21	FY22
Result Type		**Audited**	**Audited**
Total portfolio	Rs. in Crs.	512.41	745.72
Owned Portfolio	Rs in Crs.	341.45	580.55
Net Interest Income	Rs. in Crs.	42.23	43.86
Profit after Tax	Rs. in Crs.	4.71	23.25
Tangible net worth	Rs. in Crs.	80.26	103.55
Gearing	Times	3.85	5.85
Gross NPA	%	2.63%	2.22%
Gross NPA (Owned Portfolio)	%	2.21%	2.01%
Net NPA	%	0.00%	0.00%
Net NPA (Owned Portfolio)	%	0.00%	0.00%
CRAR	%	31.62%	20.05%
Tier I ratio	%	20.41%	16.76%

KEY COVENANTS OF THE INSTRUMENT/ FACILITY RATED: NIL

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal and suspended)

Sr. No.	Name of Instrument	Current Rating (2022)			Rating History for the past 3 years		
		Type	Amount (Rs. Cr.s)	Rating	2021 (05 March 2021)	2020	2019
1.	Term Loans	Long Term	467.16	BWR BBB/Stable (Reaffirmed) and simultaneously Withdrawn BWR BBB/Stable (Reaffirmed/ Assigned) for Rs.541.65 Crs.	BWR BBB/Stable (Assigned) for Rs 400 Crs	BWR BBB+/Stable (Reaffirmed) and simultaneously Withdrawn	NA
2.	Proposed Term Loans		182.84	Withdrawn on non-utilization BWR BBB/Stable (Assigned) for Rs.108.35 Crs			
	Total		**650.00**	**Rupees Six Hundred Fifty Crores only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS - Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Banks & Financial Institutions**

Analytical Contacts	
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Vedika Credit Capital Limited
ANNEXURE I - Details of Bank Facilities rated by BWR

Sl. No.	Name of the Lender	Type of Facilities	Long Term (Rs in Cr)	Short Term (Rs in Cr)	Total@ (Rs in Cr)
1.	NABKISAN Finance Limited	Term Loan	2.73	–	2.73
2	NABARD	Term Loan	42	–	42
3	SIDBI	Term Loan	25.24	–	25.24
4	ESAF Small Finance Bank Ltd	Term Loan	8.54	–	8.54
5	IDFC First Bank Limited	Term Loan	9.07	–	9.07
6	ICICI Bank Limited	Term Loan	27.27	–	27.27
7	Canara Bank	Term Loan	15.77	–	15.77
8	Bank of Maharashtra	Term Loan	21.64	–	21.64
9	State Bank of India	Term Loan	126.01	–	126.01
10	Indian Overseas Bank	Term Loan	46.67	-	46.67
11	Union Bank of India	Term Loan	14.83	–	14.83
12	Indian Bank	Term Loan	15.57	–	15.57
13	Bank of Baroda	Term Loan	14.49	–	14.49
14	Punjab National Bank	Term Loan	28.78	–	28.78
15	Central Bank of India	Term Loan	21.50	–	21.50
16	Bank of India	Term Loan	22.52	–	22.52
17	IDBI	Term Loan	14.88	–	14.88
18	Capital Small Finance Bank Ltd.	Term Loan	9.65	–	9.65
	Total allocated Limit (A)		467.16		467.16
	Proposed Term Loan (B)		182.84		182.84
	Total Rated Bank Limits		650.00		650.00

Total Rupees Six Hundred Fifty Crores only

@Outstanding as on 30 June 2022

ANNEXURE II - NCD DETAILS: Nil

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