

VILLAGE FINANCIAL SERVICES LIMITED

Brickwork Ratings assigns/reaffirms ‘BWR BBB+’ rating on Village Financial Services Ltd and continues the Credit watch with developing implications.

Particulars:

Instrument s / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (June, 2020)	Present
Fund based - Term loans	366.50	800	Long Term	BWR BBB+ Reaffirmed Rating placed under Credit watch with developing implications	BWR BBB+ Reaffirmed Credit watch with developing implications
Total	366.50	800	INR Eight Hundred Crores Only		

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

** Details of Bank Loan facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) assigns/reaffirms the long-term rating of ‘BWR BBB+’ for the enhanced bank loan facilities of Village Financial Services Limited (VFSL) and continues the Credit Watch with developing implications as tabulated above.

The rating reaffirmation factors, the long track record and experience of the promoters, comfortable asset quality, adequate capitalisation and liquidity. However, the rating is constrained by high geographical concentration risk and inherent risks associated with Microfinance Institutions.

The rating continues to be under credit watch with developing implications, given the uncertainty regarding the extent of impact of COVID-19 on the credit profile of underlying borrowers of VFSL and the resultant impact on the company's asset quality. The credit watch will be resolved once clarity emerges on the extent of impact on the asset quality and overall credit quality of the company.

Post announcement of COVID linked lockdown on 24 Mar 2020, the company had temporarily stopped fresh disbursements to conserve liquidity and plans to resume by end of June 2020. Collections were impacted for the months of April and May 2020 due to lockdown and moratorium availed by customers. However, since the lockdown was lifted in a phased manner, the collections for the company have improved. On the liability side most of its lenders have approved moratorium and available liquidity is sufficient to cover their operating and credit costs.

KEY RATING DRIVERS

Credit Strengths:

- **Long track record and experience of promoters in the microfinance space:** VFSL is one of the oldest microfinance institutions of Eastern India. VFSL started microfinance operations in 2005-2006 by providing credit for income generating activities. The promoters of VFSL, Mr. Ajit Kumar Maity and Dr. Kuldip Maity have over 2 decades of experience in microfinance activities. Prior to VFSL, the promoters were engaged in microfinance activities through Village Welfare Society (a grants based not-for-profit organisation) and Village Micro Credit Services (a Section 25 not-for-profit company).
- **Adequate capitalisation:** The company is adequately capitalised at 23.40% as on 31 Mar 2020. As on 31 Mar 2020, tangible networth increased to Rs 161.04 Crs from Rs 125.98 Crs a year ago, due to retention of profits. Also, reduction in debt levels has resulted in the gearing level decreasing to 4.75x as on 31 Mar 20 from 6.16x as on 31 March 19. The company's ability to raise fresh capital to augment growth while continuing to reduce gearing levels will be a key rating monitorable.
- **Healthy Asset Quality:** Although, GNPA has increased to 0.86% from 0.55% in FY19, it is still at a comfortable level. BWR expects that the asset quality might come under

pressure in the near to short term due to the impact of COVID-19 on the credit profile of underlying borrowers. The company's ability to improve collections and manage its asset quality will remain a key rating monitorable.

- **Diversified Resource Profile:** The company mainly borrows from banks (50%), NBFCs and FIs (50%). The company has availed term loans from 25 banks and 25 NBFCs and FIs. Despite the recent slowdown in the NBFC sector, VFSL has been able to raise funds. The company has raised fresh debt of Rs1,200 Crs in FY 20 and Rs 282 Crs of fresh sanctions in Q1 FY 21 till date. The overall cost of borrowing was 14.09% for FY 20.

Credit Risks:

- **Geographic Concentration:** Top 3 states contribute to ~88% of the total portfolio with West Bengal contributing to ~71% followed by Bihar (10%) and Tripura (7%). This exposes VFSL to high geographic concentration risk and is prone to geo-political risks in these regions. Going forward, the ability of the company to reduce its concentration in West Bengal by diversifying in other states will be a key rating sensitivity.
- **Inherent Risks associated with Microfinance Business:** In the past, MFIs have demonstrated vulnerability to force majeure events, regulatory and legislative risks which adversely impacted the business models of MFIs by impairing growth, asset quality, profitability, and solvency. Furthermore, since the business of these institutions entails lending to the poor and downtrodden sections of society, MFIs will remain exposed to socially sensitive factors, especially relating to 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 VFSL. 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 maintain adequate liquidity, grow its loan book, manage asset quality and maintain capitalisation and profitability are key rating sensitivities.

Positive: Steady portfolio growth backed by sustained asset quality, improvement in profitability, healthy capitalisation and adequate liquidity are key rating drivers.

Negative: A sharp deterioration in asset quality, liquidity or profitability are key rating sensitivities.

LIQUIDITY: Adequate

As on 10 June 2020, the company had cash and cash equivalents of Rs 90 Crs and undrawn bank lines of Rs 150 Crs. The company has received moratorium from most of its lenders and hence, the available liquidity is sufficient to cover interest payments and operating expenses from June to August FY 20. With the expected improvements in collections, the liquidity position of the company is expected to strengthen further over the next two quarters. The company provides microfinance loans with a maximum tenure of 24 months and its borrowings are long term in nature with average tenure of 3 years. This results in a favourable ALM position for the company. As per ALM profile dated 31 Mar 2020, there were no cumulative mismatches across various buckets upto 5 years.

Coronavirus disease (COVID-19), Coronavirus disease (COVID-19), declared a pandemic by the World Health Organisation (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 as the 6-month moratorium ends and to collect



accumulated interest and principal dues on a timely basis after this period 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.

COMPANY'S PROFILE

Village Financial Services Limited (VFSL) is a Kolkata based Non-Banking Finance Company – Microfinance Institution (NBFC-MFI). It started microfinance activity in 2006 and got registered with RBI as NBFC-MFI in September 2013. The company is promoted by Mr. Ajit Kumar Maity (Chairman) and his son, Dr. Kuldip Maity (Managing Director) who have over two decades of experience in the microfinance segment.

VFSL follows Joint-Liability Group (JLG) lending model to offer loans to women borrowers. Currently, VFSL operates in 78 districts across 13 states through its 246 branches. As on 31 Mar 2020, VFSL has a total portfolio of Rs 1090.96 Crs which includes assigned / securitised portfolio of Rs 301.46 Crs and BC portfolio of Rs 72.12 Crs.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY18	FY19	FY20
Result Type		Audited	Audited	Provisional
Total income from operations	Rs in Crs	111.55	187.20	204.01
PAT	Rs in Crs	9.36	29.23	35.06
Tangible Networth	Rs in Crs	81.75	125.98	161.04
Gearing	Times	7.71	6.16	4.75
GNPA	%	0.48	0.55	0.86
CRAR	%	15.65	18.83	23.40

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: CARE BB+ (Stable) - Issuer Not Cooperating as on 29 May 2020.

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

S.No	Facility	Current Rating (June 2020)			Rating History			
		Type	Amount (Rs in Crs)	Rating	15 June 2020	14 June 2019	17 May 2018	2017
1.	Term Loans	Long Term	336.50	BWR BBB+ Assigned/ Reaffirmed Rating under “Credit watch with developing implications”	BWR BBB+ Reaffirmed and rating placed under “Credit watch with developing implications”	BWR BBB+ (Stable) Reaffirmed	BWR BBB+ (Stable) Assigned	NA
2.	Proposed Term Loan	Long Term	433.50				NA	NA
3.	Subordinate Debt (Term Loan)	Long Term	30.00				NA	NA
Total			800	INR Eight Hundred 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

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Village Financial Services Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of Bank	Long Term Loans (Rs.Cr)	Short Term Loans (Rs.Crs)	Total (Rs.Cr)
1	Dena Bank	1.24	0	1.24
2	Bandhan Bank Limited	7.50	0	7.50
3	South Indian Bank Ltd.	1.77	0	1.77
4	DCB Bank Ltd.	3.20	0	3.20
5	Punjab & Sind Bank	1.36	0	1.36
6	Syndicate Bank	9.09	0	9.09
7	Canara Bank	9.59	0	9.59
8	UCO Bank	0.34	0	0.34
9	Vijaya Bank	16.03	0	16.03
10	AXIS Bank Ltd	11.43	0	11.43
11	IDFC Bank Ltd.	5.71	0	5.71
12	Union Bank of India	13.11	0	13.11
13	United Bank of India	4.44	0	4.44
14	Indian Bank	13.75	0	13.75
15	Yes Bank	13.13	0	13.13
16	AU Small Finance Bank	2.92	0	2.92
17	ICICI Bank	1.25	0	1.25
18	Suryoday SFB	0.41	0	0.41
19	Capital Small Finance Bank	3.26	0	3.26
20	Kotak Mahindra Bank	8.71	0	8.71
21	NABARD	62.65	0	62.65
22	SIDBI	2.00	0	2.00
23	Nabsamruddhi	3.67	0	3.67
24	MUDRA	6.36	0	6.36

25	NABKISAN	8.33	0	8.33
26	MAS Financial Services Ltd.	6.25	0	6.25
27	Capital First Limited	40.00	0	40.00
28	Hero Fincorp Ltd	3.38	0	3.38
29	Electronica	4.10	0	4.10
30	Jain Sons Finance Ltd.(Intellegrow)	0.26	0	0.26
31	IFMR Capital	8.38	0	8.38
32	Maanaveeya	16.43	0	16.43
33	Hinduja	11.46	0	11.46
34	Mahindra PLI	1.39	0	1.39
35	Centrum	3.57	0	3.57
36	Manappuram	4.09	0	4.09
37	Muthoot Capital	5.83	0	5.83
38	Caspian Impact Investment	6.67	0	6.67
39	Profectus Capital	2.91	0	2.91
40	Proud Securities (Incred)	10.54	0	10.54
	Total term loans	336.50	0	336.50
	Subordinated Debt		0	
41	IDFC First Bank	30.00	0	30.00
	Total sanctioned facilities	366.50	0	366.50
	Total proposed facilities	433.50	0	433.50
	Total	800	0	800

INR Eight Hundred Crores only



For print and digital media

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