CARE REAFFIRMS THE RATING ASSIGNED TO BANK FACILITIES OF VILLAGE FINANCIAL SERVICES PRIVATE LIMITED

Ratings

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Ratings(^1)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term Bank Facilities</td>
<td>451.77</td>
<td>CARE BBB (Triple B Minus)</td>
<td>Reaffirmed</td>
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<tr>
<td>[Enhanced from Rs.201.77 crore]</td>
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<tr>
<td>Total Facilities</td>
<td>451.77</td>
<td></td>
<td></td>
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<tr>
<td>(Rupees Four Hundred Fifty One crore and Seventy Seven lakh only)</td>
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Rating Rationale

The rating continues to draw strength from the long experience of the promoters in the micro finance business, well defined organizational structure & governance framework and adequate IT infrastructure in-line with scale of operation. The rating also factors in the improvement in financial performance in FY16 (refers to the period April 1 to March 31) marked by substantial increase in portfolio, healthy asset quality albeit limited seasoning of loan portfolio and comfortable liquidity profile. However, the rating is constrained by geographical concentration of operation in West Bengal, moderation in capital adequacy ratio, limited financial flexibility in regard to equity capital mobilization and increasing competition. The rating also factors inherent risks in the micro finance industry including unsecured lending, socio-political intervention, regulatory risk and operational risks related to cash based transaction. Ability of the company to improve profitability and Tier I capital while maintaining asset quality would be the key rating sensitivities.

Background

Village Financial Services Private Ltd [VFSPL: erstwhile ‘Spencer Vinimay Private Ltd’ (SVPL)], incorporated in 1994, is a (Non-Deposit taking) Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI) registered with Reserve Bank of India (RBI). The current promoters of VFSPL, Mr. Ajit Kumar Maity (Chairman) and his son Mr. Kuldip Maity (Managing Director) have over two decades of experience in micro lending activities. The existing promoter took over SVPL in 2005 in order to transfer the micro finance portfolio from a section 25 company, Village Micro Credit Services (VMCS), to an NBFC (i.e. SVPL). SVPL was later rechristened into VFSPL. Currently, VFSPL and VMCS both are engaged in MFI lending activities. While VFSPL is engaged into direct micro lending activities, VMCS is engaged in MFI lending activities through business correspondence model.

VFSPL is engaged in the business of micro lending to individual women borrowers under ‘Joint Liability Group (JLG) model. As on March 31, 2016, VFSPL managed a loan portfolio of Rs.250.25 crore through a network of 124 branches in 33 districts spanning across 7 states. West Bengal accounted for 90.82% of loan portfolio as on Mar 31, 2016.

In FY16, VFSPL earned a PAT of Rs.2.08 crore (Rs.1.09 crore in FY15) on a total income of Rs.44.21 crore (Rs.26.55 crore in FY15).

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**For detailed Rationale Report and subscription information, please contact us at www.careratings.com

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\(^1\) Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications
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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.
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