Veritas Finance Limited

January 02, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	4,445.00 (Enhanced from 3,945.00)	CARE A+; Positive	Reaffirmed
Short-term bank facilities	10.00	CARE A1+	Reaffirmed
Non-convertible debentures – VII	595.00	CARE A+; Positive	Reaffirmed
Non-convertible debentures – VIII	150.00	CARE A+; Positive	Assigned
Commercial paper	200.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities and debt instruments of Veritas Finance Limited (Veritas) continue to factor in experience of the senior management in the lending business, comfortable capitalisation levels supported by regular equity raise, healthy profitability levels, improving asset quality indicators in FY24 (refers to April 01 to March 31), commensurate in-house processes, established risk management and management information systems (MIS), and strong liquidity position. Ratings also factor in improvement in asset under management (AUM) from ₹3534 crore as on March 31, 2023, to ₹5724 crore as on March 31, 2024, and further to ₹6517 crore as on September 30, 2024. However, ratings are constrained by limited seasoning of its portfolio, geographical concentration amid efforts taken for diversification, moderately diversified resource profile and presence in the micro, small and medium enterprises (MSME) segment, which is relatively risky.

Rating sensitivities - Factors likely to lead to rating actions

Positive factors – Factors that could individually or collectively, lead to positive rating action/upgrade:

- Significant increase in the scale of operations while maintaining good profitability
- Equity raise and diversification of resources

Negative factors – Factors that could individually or collectively, lead to negative rating action/downgrade:

- Weakening of the asset quality parameters leading to decline in profitability with return on total assets (ROTA) of below 3% on a sustained basis
- Weakening of the capital adequacy levels, with gearing above 3x on a sustained basis.
- Weakening of the liquidity profile.

Analytical approach: Standalone

Outlook: Positive

The 'Positive' outlook reflects CARE Ratings Limited's (CARE Ratings) expectation of continued growth momentum, maintaining good profitability and asset quality. CARE Ratings also expects the company to diversify its resources in terms of debt or equity and maintain gearing at comfortable levels. However, the outlook may be revised to stable, in case the company is not able to grow its loan portfolio or if there is significant moderation in asset quality and profitability.

Detailed description of key rating drivers

Key strengths

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Experienced senior management team

VFL was founded by D Arulmany, who is currently its Managing Director and Chief Executive Officer (CEO). He has an overall experience of over 25 years, most of which, is in the financial services industry, and has held different positions in companies under the Murugappa group and worked as the CEO of an affordable housing finance company. D Arulmany is assisted by an experienced senior management team, majority of whom were closely associated with him in earlier organisations and have significant experience in the lending business. Day-to-day operations are managed by the senior management team and are supervised by the board comprising nine directors including the managing director, five independent directors and three nominee directors.

Commensurate in-house processes and MIS systems

Veritas is engaged in lending to the MSME segment, which is generally secured by collateral and lends for a tenure of up to 15 years with a ticket size ranging to a maximum ₹50 lakh. Veritas' target segment consists of MSME enterprises, where the business is on a cash-and-carry basis, especially in rural and semi-urban areas. The company has also expanded in the affordable housing finance segment and used vehicle finance segment. The company has a defined credit policy, which is drafted based on the experience and knowledge of the target customer segment gathered in the past. The company has introduced a risk-based pricing model, enabling an efficient pricing mechanism. The loan-to-value (LTV) ratio of less than 50% of the distressed value arrived by the company (in case of MSME segment) gives it a considerable cushion, in case of delinquencies. The company also considers up to 55% (income to instalment ratio) of borrower's net income (considering other loan repayments) for repaying loan obligation. Veritas has its in-house team covering all facets – business sourcing, credit, technical, legal, collection, and recovery. Veritas also has external sourcing, technical and legal, in the housing finance segment. Customer selection runs through several levels of checks, including sales and credit teams visiting the customer's business premises for income assessment, LTV assessment, and KYC norms, among others. All appraisals, including income assessment and property valuation, are done at the branch level by the credit officer, legal and technical teams. Collections are done majorly through automatic clearing house (ACH) payments/direct debit mandate (DDM), and through digital payment modes. Depending on vintage of the loan, the sales manager or collection officers hold the responsibility of following up with customers to recover loans, in case of delays. Veritas uses third-party vendor software for its MIS systems, which has been used by public sector undertaking (PSU) banks and leading NBFCs. This system provides solutions for the business – from loan origination up to NPA management. This system enables automation of entire processes, improving efficiency. This software runs on high-end servers stored in the data centre with adequate safeguards for back-up, disaster recovery, and business continuity built in. Veritas has also established a dedicated and centralised back-office team. MIS systems and in-house process are commensurate with the company's current operations.

Comfortable capitalisation levels

Veritas has been able to raise equity regularly from investors since inception and the company has raised ₹1,835 crore since inception (₹31 crore in FY16, ₹120 crore in FY18, ₹260 crore in FY19, ₹350 crore in FY20, ₹440 crore in FY22 and ₹492 crore in FY24 and ₹141 crore in Q2FY25). In Q2FY25, the company raised ₹240 crore including secondary out of which Rs.141 crores as partly paid equity shares were made into fully paid equity shares. With increase in profits and equity infusion, the company's gearing stood at 1.75x as on March 31, 2024, compared to 1.57x as on March 31, 2023. The total capital adequacy ratio (CAR) and Tier-1 CAR stood at 41.49% as on March 31, 2024, against 45.00% and 44.67% as on March 31, 2023, which is higher than regulatory requirements of 15% and 10% respectively. The company's gearing stood at 1.92x as on September 30, 2024. The company has CAR and Tier 1 CAR stood at 40.87% as on September 30, 2024. CARE Ratings notes that current capitalisation is sufficient for achieving envisioned growth in the medium term with net gearing level remaining below 3x.

Improvement in scale of operations

In FY24, disbursement improved, and total disbursement stood at ₹3702 crore in FY24, against ₹2245 crore in FY23. In H1FY25, disbursement stood at ₹1838 crore. AUM grew by 62% in FY24 and stood at ₹5724 crore as on March 31, 2024, against ₹3534 crore as on March 31, 2023, AUM further grew by 12% in H1FY25 and stood at ₹6517 crore as on September 30, 2024.

Small business loans /MSME Loans continue to comprise majority proportion of AUM with 61% as on March 31, 2024 (73% as on March 31, 2023). Working capital loan grew by 77% in FY24 and contributes 11% of the AUM (PY: 10%). LAP – C loan product comprises 14% of AUM as on March 31, 2024 (PY: 14% as on March 31, 2022). Home loan, which was 3% of the portfolio as on March 31, 2023, increased to 14% as on March 31, 2024. The company ventured in the used vehicle loans segment and as on March 31, 2024, AUM stood at ₹0.22 crore. As on September 30, 2024, share of SBL/MSME Loans stood at 59%, followed by Home loans at 18%, LAP-C at 14% and working capital at 9% while Vehicle loan segment stood at 1% of the AUM as on September 30, 2024.

The company increased its employees and branches from 4,432 and 287 as on March 31, 2023, to 6,299 and 434 (including 52 service centres) as on March 31, 2024, and further to 7704 and 494 (including 86 Service centres) as on September 30, 2024, respectively, to support envisioned growth plans for the next few years.

Healthy profitability levels

The company has been reporting a ROTA of over 3% in the last four years ended March 31, 2024. ROTA stood at 4.70% in FY24 compared to 5.29% in FY23. Cost of funds increased from 9.21% in FY23 to 9.76% in FY24, net income margin (NIM) has remained at 14.39% in FY24 compared to 14.66% in FY23. Income from mutual funds led to an improvement in other income from 0.67% in FY23 to 1.10% in FY24. However, due to increase in branches and number of employees operational cost stood at 7.45% in FY24 compared to 6.95% in FY23. Considering increase in write-offs and fresh slippages, credit cost has increased to 1.85% in FY24 compared to 1.40% in FY23. In H1FY25, the company reported profit after taxes (PAT) of ₹133 crore and ROTA of 3.83%.

CARE Ratings expects profitability to remain healthy in the near term with credit costs expected to remain under control going forward.

Improvement in asset quality in FY24

Gross non-performing assets (GNPA) stood at 1.79% and net NPA (NNPA) stood at 0.85% as on March 31, 2024, compared to 2.19% and 1.27% respectively as on March 31, 2023. GNPA and NNPA stood at 1.95% and 0.97% as on September 30, 2024. Slippage ratio improved from 4.20% in FY23 to 3.18% in FY24 and further improved to 2.92% (annualised) in H1FY25. The write-off stood at ₹65.22 crore for FY24 compared to ₹43.89 crore for FY23. Write offs stood at ₹44 crore for the Half year ended September 30, 2024. With increased credit cost in the year, provision coverage ratio has increased from 42.82% for FY23 to 53.14% for FY24. Provision coverage ratio stood at 50.83% as on September 30, 2024. Softer bucket delinquencies improved; 0+, 30+ and 60+ days past due (DPD) stood at 3.61%, 3.05% and 2.02% as on March 31, 2024, compared to 5.23%, 4.46% and 2.35% as on March 31, 2023 (0+,30+and 60+ DPD stood at 4.88%, 3.53% and 2.41% respectively as on September 30, 2024). The total restructured book stood at ₹26.19 crore as on March 31, 2024, which is 0.46% of gross loan portfolio. Restructured book stood at ₹15.22 crore as on September 30, 2024 (0.23% of the gross loan portfolio). Gross stressed assets (GNPA + standard restructured assets + emergency credit line guarantee scheme [ECLGS]), as a percentage of gross loan portfolio has improved from 3.44% as on March 31, 2023, to 2.13% as on March 31, 2024. Gross stressed assets as a percentage of gross loan portfolio stood at 2.13% as on September 30, 2024. Portfolio of Veritas has limited seasoning and the company has seen higher growth rates in the last two years ended March 31, 2024. As on March 31, 2024, 58% (PY: 59%) portfolio has seasoning of less than one year and 26% (PY: 25%) portfolio has a vintage of 1-2 years. CARE Ratings expects asset quality to remain intact, going forward. With strong capital adequacy levels, current lending rates, and good pre-provision operating profit, Veritas is better placed to absorb relatively higher credit costs.

Key weaknesses

Geographical concentration of portfolio wherein diversification is under progress

Veritas started operations in Tamil Nadu in FY16 and entered Karnataka and West Bengal in FY17; Puducherry and Odisha in FY18; Andhra Pradesh, Telangana, and Madhya Pradesh in FY19; Jharkhand in FY20 and Bihar and Chhattisgarh in FY24. The company has taken continuous efforts towards geographical diversification by opening branches in new states. Share of the top state (Tamil Nadu) continues to remain at 41% as on March 31, 2024, (PY: 41%) and 42% as on September 30, 2024. Share of top three states continue to remain at 68% as on March 31, 2024 (PY: 68%), and 71% as on September 30, 2024. As on March 31, 2024, top 10 branches constitute 9% (PY: 10%) of the total loan book. As on March 31, 2024, Veritas operates in 11 states/UTs across 382 branches and 52 Service centres (287 branches and one Service centre in nine states/UT as on March 31, 2023). As on September 30, 2024, Veritas operates in 494 branches (including 86 service centres) across 11 states/UTs.

Modest credit profile of borrower segment – presence in MSME segment

Veritas is primarily lending towards unorganised MSME segment in rural and semi-urban areas and lends small ticket loans ticket size ranging from ₹30,000 to ₹50 lakh, with majority loans in the range of ₹2-5 lakh. Borrowers are mostly not serviced by formal channels of credit due to lack of proper income documents and are vulnerable to income shocks and economic downturns. However, the management team's knowledge on this target customer segment provides comfort and risk is mitigated to an extent as most secured loans are backed by mortgage of self-occupied residential property. CARE Ratings expects the company to remain focused in this segment, as there is potential to grow its business in this segment.

Moderately diversified resource profile

The company's resource profile is skewed towards bank borrowings, which stands at 76.53% as on March 31, 2024, compared to 80.7% as on March 31, 2023. Borrowings as term loans from NBFCs stood at 3.25% as on March 31, 2024, compared to 7.26% as on March 31, 2023. Borrowings as NCDs stood at 7.76% (including 3.88% contributed by foreign investors) as on March 31, 2024, compared to 7.38% (including 6.35% contributed by foreign investors) as on March 31, 2023. Share of securitisation has increased from 1.78% as on March 31, 2023, to 12.15% as on March 31, 2024. Term loans from banks accounted for 71.57%, while borrowings from NBFCs were at 3.28% of total borrowings as on September 30, 2024. Non-convertible debentures (NCDs) comprised 7.82%, with 3.15% contributed by foreign investors while securitisation represented 17.39% of total borrowings as on September 2024.

The company has been raising funds in the form of securitisation majorly from mutual funds. The company also does CP transactions for managing liquidity. The company's ability to diversify its resource profile and maintain borrowing costs at competitive rates will be key determinant for profitability and liquidity. Matching tenor of borrowings with the loan portfolio remains a key factor in the long term.

Liquidity: Strong

The company has cash and cash equivalents of ₹935 crore as on September 30, 2024. The asset and liability management (ALM) profile of Veritas remains comfortable, with no cumulative mismatches in any of time buckets as on September 30, 2024. In addition, the company also has un-availed lines of credit aggregating to ₹820 crores (including Rs.85 crore of working capital limits) as on September 30, 2024, and investments in mutual funds aggregating to ₹100 crore as on September 30, 2024. The company's debt obligation (Principal alone) less than one year bucket stood at ₹1675.80 crore as on September 30, 2024.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Short Term Instruments
Non Banking Financial Companies

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

Incorporated on April 30, 2015, Veritas is a non-deposit taking NBFC (loan company), registered with RBI. Veritas is founded by D. Arulmany. Veritas lends to borrowers engaged in micro, small and medium enterprises (MSME) sector with limited access to formal financial services. The company operates at 382 branches (52 service centres) in 169 districts (March 2023: 287 branches and 151 districts) as on March 31, 2024, across 11 states/UT, which includes Tamil Nadu, Puducherry, West Bengal, Madhya Pradesh, Telangana, Orissa, Andhra Pradesh, Karnataka, Jharkhand, Bihar and Chhattisgarh. Veritas has a loan portfolio of ₹5,724 crore as on March 31, 2024 (₹3,534 crore as on March 31, 2023). Veritas has an AUM of ₹6517 crore through 494 branches (including 86 Service centres) spread across 174 districts in 11 states/UT as on September 30, 2024.

Veritas offers products such as MSME small business loan (MSME), working capital loan (WCL) and MSME home construction loan (LAP-C), housing loan (HL) and vehicle loans. As on March 31, 2024, MSME, LAP-C, WCL and HL stood at 61%, 14%, 11% and 14% respectively against 73%, 14%, 10% and 3% respectively as on March 31, 2023. The loans portfolio consisted 59% of MSME, 18% Home loans, 14% LAP C, 9% WCL and 1% Used CV as on September 30, 2024. On a fully diluted basis, the founder, Arulmany and his relatives held 9.56% (11.34%), Norwest Venture Partners X (largest shareholder) held 21.23% (21.11%), CDC group PLC in the name of British International Investments held 10.16% (10.10%), Kedaara capital fund II LLP held 14.83% (14.75%), Mutliples and its associated investors hold 15.97%(15.87%), Lok Capital and its affiliates held 13.44% (10.98%), Avendus Future leaders fund held 2.85% (2.27%), Caspian Impact Investment Advisers private limited held 0.18% (0.18%), and 3.05% (3.07%) as ESOP & Warrants and remaining by individual shareholders, employees and their relatives as on September 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Sep 30, 2024 (UA)
Total operating income	682	1124	720
PAT	176	245	133
Interest coverage (times)	2.36	2.02	1.78
Total Assets	4,075	6,375	7,541
Net NPA (%)	1.26	0.85	0.97
ROTA (%)	5.29	4.70	3.83

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	Proposed	-	-	-	200.00	CARE A1+
Debentures-Non Convertible Debentures	Proposed	-	-	-	115.00	CARE A+; Positive
Debentures-Non Convertible Debentures	INE448U07265	13-Nov-24	9.75%	13-Nov-28	50.00	CARE A+; Positive
Debentures-Non Convertible Debentures	INE448U07273	13-Nov-24	9.65%	13-Nov-27	50.00	CARE A+; Positive
Debentures-Non Convertible Debentures	INE448U07232	28-Mar-2024	9.75%	28-Mar-2028	25.00	CARE A+; Positive
Debentures-Non Convertible Debentures	INE448U07240	28-Mar-2024	9.75%	28-Nov-2026	25.00	CARE A+; Positive
Debentures-Non Convertible Debentures	INE448U07224	28-Mar-2024	9.75%	28-Jul-2025	25.00	CARE A+; Positive
Debentures-Non Convertible Debentures	INE448U07216	26-Dec-2023	9.75%	25-Jun-2027	55.00	CARE A+; Positive
Debentures-Non Convertible Debentures	INE448U07208	23-Jun-2022	10.35%	23-Jun-2028	150.00	CARE A+; Positive
Debentures-Non Convertible Debentures	INE448U07257	27-Jun-2022	9.80%	27-Jun-2028	100.00	CARE A+; Positive
Debentures-Non Convertible Debentures	Proposed	-	-	-	150.00	CARE A+; Positive
Fund-based-Long Term	-	-	-	-	4445.00	CARE A+; Positive
Fund-based-Short Term	-	-	-	-	10.00	CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-Long Term	LT	4445.00	CARE A+; Positive	1)CARE A+; Positive (08-Oct-24) 2)CARE A+; Positive (24-Jun-24)	1)CARE A+; Stable (04-Jan-24) 2)CARE A+; Stable (07-Dec-23) 3)CARE A; Stable (29-Sep-23) 4)CARE A; Stable (22-Jun-23)	1)CARE A; Stable (24-Feb-23) 2)CARE A; Stable (06-Dec-22) 3)CARE A; Stable (26-Oct-22) 4)CARE A; Stable (09-Jun-22) 5)CARE A; Stable (01-Jun-22)	1)CARE A-; Stable (04-Jun-21)
2	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (01-Jun-22)	1)CARE A-; Stable (04-Jun-21)
3	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (01-Jun-22)	1)CARE A-; Stable (04-Jun-21)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (26-Oct-22) 2)CARE A; Stable (01-Jun-22)	1)CARE A-; Stable (04-Jun-21)
5	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (26-Oct-22) 2)CARE A; Stable (01-Jun-22)	1)CARE A-; Stable (04-Jun-21)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (01-Jun-22)	1)CARE A-; Stable (04-Jun-21)
7	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (01-Jun-22)	1)CARE A-; Stable (04-Jun-21)
8	Debentures-Non Convertible Debentures	LT	595.00	CARE A+; Positive	1)CARE A+; Positive (08-Oct-24)	1)CARE A+; Stable (04-Jan-24)	1)CARE A; Stable (24-Feb-23)	1)CARE A-; Stable (04-Jun-21)

					2)CARE A+; Positive (24-Jun-24)	2)CARE A+; Stable (07-Dec-23) 3)CARE A; Stable (29-Sep-23) 4)CARE A; Stable (22-Jun-23)	2)CARE A; Stable (06-Dec-22) 3)CARE A; Stable (26-Oct-22) 4)CARE A; Stable (01-Jun-22)	
9	Commercial Paper-Commercial Paper (Standalone)	ST	200.00	CARE A1+	1)CARE A1+ (08-Oct-24) 2)CARE A1+ (24-Jun-24)	1)CARE A1+ (04-Jan-24) 2)CARE A1+ (07-Dec-23) 3)CARE A1+ (29-Sep-23) 4)CARE A1+ (22-Jun-23)	1)CARE A1+ (24-Feb-23) 2)CARE A1+ (06-Dec-22) 3)CARE A1+ (26-Oct-22)	-
10	Fund-based-Short Term	ST	10.00	CARE A1+	1)CARE A1+ (08-Oct-24) 2)CARE A1+ (24-Jun-24)	1)CARE A1+ (04-Jan-24) 2)CARE A1+ (07-Dec-23) 3)CARE A1+ (29-Sep-23) 4)CARE A1+ (22-Jun-23)	1)CARE A1+ (24-Feb-23) 2)CARE A1+ (06-Dec-22) 3)CARE A1+ (26-Oct-22)	-
11	Debentures-Non Convertible Debentures	LT	150.00	CARE A+; Positive				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Complex
3	Fund-based-Long Term	Simple
4	Fund-based-Short Term	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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