Veritas Finance Private Limited

June 04, 2021

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	1,200.00 (enhanced from 850.00)	**CARE A-; Stable** (Single A Minus; Outlook: Stable)	**Reaffirmed**
Total facilities	**1,200.00 (Rs. One thousand two hundred crore only)**		
Non-convertible Debenture-I	31.00 (reduced from 50.00)	**CARE A-; Stable** (Single A Minus; Outlook: Stable)	**Reaffirmed**
Non-convertible Debenture-II	45.00 (reduced from 100.00)	**CARE A-; Stable** (Single A Minus; Outlook: Stable)	**Reaffirmed**
Non-convertible Debenture-III	140.00 (reduced from 200.00)	**CARE A-; Stable** (Single A Minus; Outlook: Stable)	**Reaffirmed**
Non-convertible Debenture-IV	26.60 (reduced from 27.00)	**CARE A-; Stable** (Single A Minus; Outlook: Stable)	**Reaffirmed**
Non-convertible Debenture-V	220.00	**CARE A-; Stable** (Single A Minus; Outlook: Stable)	**Reaffirmed**
Non-convertible Debenture-VI	50.00	**CARE A-; Stable** (Single A Minus; Outlook: Stable)	**Reaffirmed**
Non-convertible Debenture-VII (Proposed)	650.00	**CARE A-; Stable** (Single A Minus; Outlook: Stable)	**Assigned**
Total Long-term Instruments	**1,162.60 (Rs. One thousand one hundred sixty-two crore and sixty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities and various debt instruments of Veritas Finance Private Limited (Veritas) continues to factor in the experience of the promotor and the senior management team in the lending business, commensurate in-house processes, commensurate risk management & MIS systems, comfortable capitalization levels and strong liquidity position. The rating also takes note of moderate improvement in the scale of operations during FY21 (refers to the period April 01 to March 31).

The rating is, however, constrained by limited seasoning of its portfolio, geographical concentration amidst the efforts taken for diversification, presence in the MSME segment which is relatively risky, moderately diversified resource profile and moderate profitability. The rating also takes note of moderation in asset quality during FY21 majorly due to the impact of Covid-19.

Rating Sensitivities

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

- Increase in the scale of operations with improvement in profitability and asset quality on a sustained basis
- Improvement in geographical diversification

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

- Weakening of asset quality parameters with GNPA of above 4% on sustained basis
- Weakening of capital adequacy levels below 18%
- Weakening of liquidity profile

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and senior management team

Veritas is promoted by Mr D. Arulmany, who is currently the Managing Director and Chief Executive Officer of the company. Mr D. Arulmany has an overall experience of about 25 years, most of which is in the financial services industry and has held various positions in the companies under the Murugappa group and also worked as CEO of an affordable housing finance company. Mr D. Arulmany is assisted by an experienced senior management team, majority of whom were closely associated

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

with him in earlier organizations and have significant experience in the lending business. The day-to-day operations are managed by the senior management team and are supervised by the board comprising seven directors, including managing director, three independent directors and three nominee directors.

Commensurate in-house processes and MIS systems

Veritas is engaged in lending to MSME segment which are generally secured by collateral and lends for tenure up to 10 years with ticket size ranging to a maximum of Rs.25 lakh, as against larger NBFCs and banks which lend at a higher ticket size. Veritas's target segment consists of MSME enterprises where the business is on cash and carry basis especially in the rural and semi-urban areas. The company has defined credit policy which is drafted based on the experience and knowledge of the target customer segment gathered in the past. The LTV ratio of less than 50% of the distressed value arrived by the company which gives them considerable cushion, in case of any delinquencies. Also, the company considers up to 55% (Income to installment Ratio) of the net income of the borrower (considering other loan repayments) for repayment of the loan obligation. Veritas has its in-house team covering all the facets starting from business sourcing, credit, technical, legal, collection and recovery. The selection of customers runs through several levels of checks including sales team along with credit team visiting business premises of the customer for income assessment, LTV assessment, KYC norms, etc. All the appraisals including income assessment and property valuation are done at the branch level by the credit officer and for final approval reports sent to head office. The collections are done through PDC/ACH/DDM, and the collection managers hold the responsibility of following up with the customers to recover the loan in case of delays. Veritas uses third-party vendor software for its MIS systems which has been used by PSU banks and leading NBFCs. This system provides solutions for the business from loan origination and upto NPA management. This system enables to automate the entire processes, thereby improving the efficiency. The MIS systems and the in-house process are commensurate with the current operations of the company.

Comfortable capitalization levels

With retention of profits and moderate growth in loan portfolio during FY21, CAR and Tier I CAR stood at 50.65% and 50.43% as on March 31, 2021 as against 59.28% and 58.65% as on March 31, 2020, which is much higher than the regulatory requirement of 15.00% and 10.00%, respectively.

With the higher cash and cash equivalents held by the company, overall gearing stood at 1.44x as on March 31, 2021 as against 1.24x as on March 31, 2020.

Veritas has been able to attract equity infusion from various investors since inception at regular intervals to support its growth plans such as Rs.30 crore in FY16, Rs.120 crore in FY18, Rs.260 crore in FY19 and Rs.352 crore in FY20.

Moderate improvement in the scale of operations during FY21

With the lockdown due to Covid-19, Veritas has completely paused the disbursement during April and May 2020 and gradually resumed June 2020 onward. With disbursement of Rs.615 crore during FY21 (PY: Rs.841 crore), Gross Loan portfolio of Veritas has only grown 20% Y-o-Y from Rs.1,301 crore as on March 31, 2020 to Rs.1,563 crore as on March 31, 2021. However, with the higher growth during earlier years, 5-year CAGR as on March 31, 2021, stood at 203%.

The company has set up Hub-Spoke model with 204 branches spread across 121 districts of 8 states & 1 Union territory as on March 31, 2021. Employee base of Veritas stood at 2,333 (1,850 as on March 31, 2020) as on March 31, 2021.

Key Rating Weaknesses

Geographical diversification though top state concentration remains higher

Veritas started its operations in Tamil Nadu during FY16 and entered various, states namely, Karnataka and West Bengal during FY17, Puducherry and Odisha during FY18, Andhra Pradesh, Telengana and Madhya Pradesh during FY19 and Jharkhand during FY20. Due to continuous efforts made by the company towards geographical diversification, share of top state (Tamil Nadu) has improved from 49% as on March 31, 2020, to 44% as on March 31, 2021, and share of top three states has also improved from 82% as on March 31, 2020 to 75% as on March 31, 2021. As on March 31, 2021, top 10 branches constitute 13% (PY:15%) of the total loan book.

As on March 31, 2021, Veritas has 72 branches in Tamil Nadu, 23 in Karnataka, 29 in West Bengal, 11 in Odisha, 25 in Andhra Pradesh, 22 in Telangana, 15 in Madhya Pradesh, 6 in Jharkhand and 1 in Puducherry.

Moderation in asset quality indicators during FY21 alongwith limited seasoning of portfolio

With the lower collection efficiency post the moratorium period (from March 2020 to August 2020) than the pre-covid-19 level, Slippage significantly increased to 5.35% during FY21 as against 3.78% during FY20. However, Gross Stage III Assets increased only to Rs.42.17 crore from Rs.24.22 crore due to significant write-off of Rs.23.28 crore (PY: Rs.0.90 crore) during FY21.

The gross stage III Assets and net stage III Assets stood at 2.70% and 1.38% as on March 31, 2021 as against 1.86% and 1.29% as on March 31, 2020. However, on 1-year lagged basis, Gross Stage III Assets remained constant at 3.28% as on March 31, 2021 and March 31, 2020. 0+ dpd moderated from 4.46% as on March 31, 2020 to 11.39% as on March 31, 2021. Stage III Provision coverage stood at 50.03% as on March 31, 2021 as against 31.87% as on March 31, 2020.

The portfolio of Veritas has limited seasoning since the company commenced lending operations in October 2015. As on March 31, 2021, 35% (PY:56%) of the portfolio has a seasoning of less than 1 year and 38% (PY: 31%) has less than 2 year.

In the backdrop of coronavirus pandemic-led economic slowdown and with loans originated in the early year of its operations maturing, in the near-term delinquencies are expected to increase. In view of the same, the ability of the company to bring back its borrowers to regular payments post moratorium is critical to maintain asset quality, going forward. However, with strong capital adequacy levels of 50.65% as on March 31, 2021, lending rates of upto 28% for MSME loans and pre-provision operating profit/ average total assets of 6.10% in FY21, Veritas is better placed to absorb temporary increase in credit cost, if any.

Relatively moderate profitability; witnessed improvement in FY21 with increasing scale of operations

During FY21, Veritas reported a PAT of Rs.62 crore on a total income of Rs.362 crore (PPOP: Rs.122 crore) as against a PAT of Rs.33 crore on a total income of Rs.251 crore (PPOP: Rs.59 crore) during FY20.

Net interest margin improved to 11.49% during FY21 from 10.65% during FY20 with significant reduction in cost of borrowings during FY21 despite moderation in Yield on Advances. With the lockdown due to Covid-19 during H1FY21, opex improved to 5.84% during FY21 from 7.57% during FY20. Credit cost doubled during FY21 from 1.04% during FY20 to 2.01% during FY21 majorly due to the higher write-offs of Rs.23.28 crore. With improvement in NIM and opex, ROTA improved to 3.09% during FY21 from 2.29% during FY20 though there was increase in credit cost and negative carry due to higher cash position during FY21. Excluding the cash and liquid investments, ROTA improved to 5.33% during FY21 from 3.14% during FY20. Nevertheless, it is critical for Veritas to contain its operating and credit costs from the profitability perspective.

Modest credit profile of borrower segment –presence in MSME segment

Veritas is primarily lending towards the un-organized MSME segment in the rural and semi-urban areas and lends small ticket loans ticket size ranging from Rs.50,000/- to Rs.25 lakh with majority of the loans in the range of Rs.3-4 lakh. The borrowers are mostly not serviced by the formal channels of credit due to absence 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 the risk is mitigated to an extent as most of the secured loans are backed by mortgage of self-occupied residential property. The company is expected to remain focused in this segment, as there is potential to grow its business in this segment.

Moderately diversified resource profile

During the initial stages of operations till FY18, funding profile of Veritas was skewed towards loans from Financial Institutions (FI). The company has taken measures to enhance its funding diversity by gaining access to bank borrowings and market instruments. Share of Term loan from NBFC/FIs stood at 15.54% as on March 31, 2021 as against 19.14% as on March 31, 2020. Veritas has raised Rs.245 crore under PCG 2.0 and the share of bank borrowings (TL, WCDL, NCD) increased to 63% as on March 31, 2021 from 43% as on March 31, 2020. Share of borrowings through NCD (excluding PCG 2.0) stood at 22% as on March 31, 2021, as against 38% as on March 31, 2020. Veritas also has unavailed cash credit facility of Rs.35 crore as on March 31, 2021.

The weighted average cost of borrowings improved from 11.77% as on March 31, 2020 to 10.55% as on March 31, 2021, partly due to the short-term borrowings such as WCDL, PCG 2.0 and Term loan from SIDBI. Going forward, the ability of the company to diversify its funding profile and raise funds at competitive interest rates from varied sources would remain critical from the liquidity and profitability perspective of Veritas. Also, matching the tenor of the borrowings with the loan portfolio remain a key factor over the long-term.

During FY21, Veritas has raised Rs.710 crore including Rs.297 crore through term loan and Rs.245 crore through NCD (PCG 2.0) from banks.

Industry Prospects

Financiers who provide loans to MSME units generally tend to rely on assessment of the estimated (surrogate) cash flows and offer loans at high yield. Lockdowns, disruptions in supply chain and impact on large industries would increase immediate delinquencies in this segment. However, secured MSME loans with collateral security (property, machinery, etc) and longer tenure may have the time for eventual recovery and may be more immune to the economic shocks compared to unsecured ones. Impact could vary across sub-segments and ticket sizes.

The outlook for NBFCs and HFCs has turned negative due to Covid-19 outbreak. The sector which grappled with liability side disruptions could see another wave of challenges, this time in the form of asset quality. Amidst these, funding challenges could mount again, as banks become more selective in extending credit. While asset quality of NBFCs has witnessed moderation in FY20 and FY21, the impact of COIVD-19 on the asset quality remains to be seen.

Impact of Covid-19

During the moratorium period (from March 2020 to August 2020), 4.70% of the MSME loan customers have availed moratorium for all 6 months and 20.72% of the MSME loan customers have not availed moratorium for any of the months. Post the moratorium period, 0+ peaked to 14.54% as on November 30, 2020 from 4.14% as on August 31, 2021, and improved gradually to 11.39% as on March 31, 2021. Collection Efficiency post moratorium remained in the range of 87%-90% as against a pre-covid level of above 94%.

With the regional lockdown announced due to the second wave of Covid-19 in most of the states where the company is operating, the impact on asset quality and profitability remains to be seen. However, the company's performance post first wave in controlling delinquency and liquidity position adds comfort.

Liquidity: Strong
ALM profile of Veritas remains comfortable with no cumulative mismatches in any of the time buckets as on March 31, 2021 and the total debt obligation (Principal alone) less than the 1-year bucket (FY22) stood at Rs.681 crore (partly PCG 2.0 redemption). As on March 31, 2021, Veritas has free cash (including unencumbered fixed deposit) of Rs.422 crore, liquid investments of Rs.175 crore and unavailed lines of Rs.175 crore.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios-Financial Sector
CARE's Rating Methodology for Non-Banking Finance Companies (NBFCs)

About the Company
Veritas Finance Private Limited (Veritas) incorporated on April 30, 2015, is a non-deposit taking NBFC (loan company), registered with RBI. Veritas is promoted by Mr D. Arulmany and the company lends to borrowers engaged in micro, small and medium enterprises (MSME) sector with limited access to formal financial services. Veritas operates in 121 districts as on March 31, 2021 (115 districts as on March 31, 2020) across 9 states/UT which includes Tamil Nadu, Puducherry, West Bengal, Madhya Pradesh, Telangana, Orissa, Andhra Pradesh, Karnataka and Jharkhand. The company operates on Hub-Spoke model with around five branches supported by 1 Hub, and as on March 31, 2021, it functioned across 204 branches. Veritas had a loan portfolio of Rs.1,524 crore as on March 31, 2021 (PY: Rs.1,279 crore).
Veritas offers three products (differentiated on the basis of purpose of the loan) such as MSME Small Business Loan (MSME), working capital loan (WCL) and MSME Home construction loan (LAP-C). The WCL loans are offered for a ticket size of Rs.50,000 - Rs.200,000/- for business purposes and for a door-to-door tenure of upto 2 years. WCL is a secured/ unsecured product and the frequency of collections is on a weekly/daily basis. The MSME loans are offered for business purposes for a ticket size of Rs.1 - Rs.25 lakh and for tenure of 5-7 years. The LAP-C loans are offered for construction purposes for a ticket size of Rs.5 - Rs.25 lakh and for tenure of up to 10 years. As on March 31, 2021, share of MSME, LAP-C and WCL stood at 82%, 14% and 4% as against 83%, 14% and 3% of the gross loan portfolio as on March 31, 2020, respectively.
As on March 31, 2021, on a fully diluted basis, the promoter, Mr Arulmany and his wife, Ms Vidya Arulmany held 15.56% (15.70%), Norwest Venture Partners X (largest shareholder) held 21.00% (21.19%), CDC group PLC held 18.84% (19.01%), Kedaara capital fund II LLP held 13.14% (13.26%), Lok Capital held 12.68% (12.79%), Caspian Impact Investment Advisers private limited held 0.56% (0.57%), 4.56% (3.82%) as ESOP & Warrants and the remaining by individual shareholders and employees & their relatives.

Brief Financials (Rs. Crore)	FY20 (A)	FY21 (A)
Total Operating Income	276	362
PAT	33	62
Interest Coverage (Times)	1.41	1.67
Total Assets	1,863	2,154
Net NPA/stage III (%)	1.29	1.37
ROTA (%)	2.29	3.09

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	March 2026	1200.00	CARE A-; Stable
Debentures - Non-Convertible Debentures-I	INE448U07166	Mar 18, 2018	11.50%	Mar 16, 2022	35.00	CARE A-; Stable
Debentures-Non Convertible Debentures-II	INE448U07141	Mar 28, 2019	11.75%	Sep 27, 2023	80.00	CARE A-; Stable
Debentures-Non Convertible Debentures-III	INE448U07075	Jul 31, 2019	12.40%	Jul 29, 2022	41.60	CARE A-; Stable
Debentures-Non Convertible Debentures-IV	INE448U07083	Aug 20, 2019	12.25%	Aug 20, 2025	86.00	CARE A-; Stable
Debentures-Non Convertible Debentures-V	INE448U07091	Jul 16, 2020	10.00%	Jan 16, 2022	25.00	CARE A-; Stable
	INE448U07109	Aug 05, 2020	9.50%	Feb 05, 2022	20.00	CARE A-; Stable
	INE448U07117	Aug 12, 2020	9.50%	Feb 12, 2022	50.00	CARE A-; Stable
	INE448U07125	Sep 03, 2020	9.50%	Mar 03, 2022	50.00	CARE A-; Stable
	INE448U07133	Sep 28, 2020	9.25%	Mar 28, 2022	50.00	CARE A-; Stable
	INE448U07174	Jan 27, 2021	10.58%	Jan 25, 2024	25.00	CARE A-; Stable
Debentures-Non Convertible Debentures-VI	INE448U07158	Nov 11, 2020	9.50%	May 11, 2022	50.00	CARE A-; Stable
Debentures-Non Convertible Debentures-VII	-	-	-	-	650.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based-Long Term	LT	1200.00	CARE A-; Stable	-	1)CARE A-; Stable (13-Jul-20) 2)CARE A-; Stable (06-Jul-20)	1)CARE BBB+; Stable (31-Dec-19) 2)CARE BBB+; Stable (05-Aug-19) 3)CARE BBB+; Stable (26-Jun-19)	1)CARE BBB+; Stable (04-Jan-19) 2)CARE BBB; Stable (04-Jun-18)
2.	Debentures-Non Convertible Debentures	LT	31.00	CARE A-; Stable	-	1)CARE A-; Stable (06-Jul-20)	1)CARE BBB+; Stable (26-Jun-19)	1)CARE BBB+; Stable (04-Jan-19) 2)CARE BBB; Stable (04-Jun-18)
3.	Debentures-Non Convertible Debentures	LT	45.00	CARE A-; Stable	-	1)CARE A-; Stable (06-Jul-20)	1)CARE BBB+; Stable (26-Jun-19)	1)CARE BBB+; Stable (04-Jan-19) 2)CARE BBB; Stable (04-Jun-18)
4.	Debentures-Non Convertible Debentures	LT	140.00	CARE A-; Stable	-	1)CARE A-; Stable (06-Jul-20)	1)CARE BBB+; Stable (26-Jun-19)	1)CARE BBB+; Stable (04-Jan-19)
5.	Debentures-Non Convertible Debentures	LT	26.60	CARE A-; Stable	-	1)CARE A-; Stable (06-Jul-20)	1)CARE BBB+; Stable (05-Aug-19)	-
6.	Debentures-Non Convertible Debentures	LT	220.00	CARE A-; Stable	-	1)CARE A-; Stable (13-Jul-20)	-	-
7.	Debentures-Non Convertible Debentures	LT	50.00	CARE A-; Stable	-	1)CARE A-; Stable (20-Oct-20)	-	-
8.	Debentures-Non Convertible Debentures	LT	650.00	CARE A-; Stable	-	-	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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