

September 16 2020

Visage Holdings & Finance Pvt. Ltd.: Rating assigned to Rs.50.00-crore CP programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
CP Programme	-	50.00	[ICRA]A3; rating assigned
Bank Facilities	50.00	50.00	[ICRA]BBB-(Negative); rating outstanding
NCD Programme	77.35	77.35	[ICRA]BBB-(Negative); rating outstanding
Total	127.35	177.35	

*Instrument details are provided in Annexure-1; In addition to the above instruments, ICRA also has a rating outstanding on the Pooled Loan Issuance (PLI) programme of Northern Arc Capital Limited. Refer to [Link-1](#), [Link-2](#), [Link-3](#) and [Link-4](#) for details

Rationale

The ratings consider Visage Holdings & Finance Pvt. Ltd.'s (Kinara's) experienced senior management team and its adequate near-term capitalisation, characterised by a managed gearing of 3.7 times (provisional) as on June 30, 2020. The capital profile was supported by capital infusions of Rs. 83.7 crore and Rs. 16.3 crore in March 2019 and June 2019, respectively, and the decline in the portfolio during February 2020 to June 2020. ICRA however notes Kinara's modest asset quality profile as the 90+dpd increased to 4.5% as of March 2020 from 3.6% as of March 2019 and the write-offs increased to 2.5% of the average managed assets (AMA) in FY2020 from 1.1% in FY2019. In 4M FY2020, the write-offs stood at Rs. 11.4 crore compared to Rs. 25.7 crore in FY2020 while the 90+dpd stood at 4.1% as of July 2020. The asset quality pressure was visible from Q3 FY2020 and is expected to remain elevated in the current fiscal as well because of the Covid-19-related disruptions, which are likely to impact the borrowers' cashflow levels. The rating takes note of the CGTMSE¹ cover available for the company's portfolio (covering 69% of the assets under management (AUM) as of June 2020). While the benefits of this would be visible from early Q4 FY2021, the extent and timeliness of relief from the same remain to be seen. The company's collection efficiency² improved to about 61% in June 2020 and remained at similar levels in July 2020 compared to about 41% in April 2020.

The negative outlook on the long-term rating takes into consideration Kinara's modest asset quality and the consequent impact on its net profitability (profit after tax (PAT)/AMA), which moderated to 0.5% (provisional; annualised) in Q1 FY2021 vis-à-vis 1.8% in FY2020. The ratings continue to factor in the company's moderate scale of operations with the top three states (Tamil Nadu, Karnataka and Maharashtra) accounting for about 73% of its portfolio as on March 31, 2020. ICRA notes that the company has breached some financial covenants with its lenders and has applied for a temporary relaxation of the same. Going forward, Kinara's ability to secure debt funding in a timely manner would be crucial for growth while maintaining an adequate liquidity profile.

¹ Credit Guarantee Fund Trust for Micro and Small Enterprises

² Total collections/monthly demand

Key rating drivers and their description

Credit strengths

Good growth potential and experienced management team; however, target segment is risky – Kinara provides loans to small businesses for asset purchase and working capital requirements. Its borrower profile consists of small businesses with an annual turnover in the range of Rs. 6 lakh to Rs. 6 crore. The company's borrowers are usually small manufacturers (57%) and traders (43%), a largely unserved segment, thus offering good growth potential. Kinara has an experienced management team with adequate domain understanding, which enables it to frame and develop robust lending and monitoring systems that are crucial to support AUM growth given the borrower profile. The loans are either unsecured or secured by the hypothecation of machinery and receivables. The current lockdowns and the expected impact of the Covid-19 pandemic on the income profile of the borrowers would be a monitorable in the near term. The CGTMSE cover for 69% of its AUM, however, provides some comfort from a credit perspective. Kinara's ability to secure incremental debt and equity funding and identify good quality credit would be key for growth going forward.

Adequate near-term capitalisation profile – The company's capitalisation is adequate with a managed gearing of 3.9 times as on March 31, 2020 and 3.7 times as on June 30, 2020. Kinara raised capital of Rs. 83.7 crore and Rs. 16.3 crore in March 2019 and June 2019, respectively, which supported its business growth. This also helped the company maintain an adequate capitalisation profile as the internal generation remained relatively moderate compared to its growth requirements. Kinara reported Tier I and CRAR of 23.9% and 28.8%, respectively, as on March 31, 2020 compared to 25.3% and 33.9%, respectively, as on March 31, 2019. Given the growth plans, the timely infusion of capital would be required in the near to medium term to maintain an adequate capital structure with an expected managed gearing of around 4.5-5.0 times.

Credit challenges

Modest asset quality profile; near-term pressure to remain high because of Covid-19 – As on March 31, 2020, one-third of Kinara's portfolio was unsecured while the balance was secured by the hypothecation of machinery and receivables. The asset quality had deteriorated steadily with delinquencies (90+dpd) of 4.5% as of March 2020 compared to 3.6% as of March 2019, because of the challenging operating environment for the target borrower segments. Kinara wrote off loans amounting to Rs. 25.7 crore (2.5% of AMA) in FY2020 compared to Rs. 8.1 crore (1.1% of AMA) in FY2019. It further wrote off Rs. 11.4 crore during the first 4 months of the current fiscal. Consequently, the 90+dpd reduced to 4.1% as of July 2020. The company's reported gross stage 3 (GS 3) assets stood at 6.1% as of March 2020. The difference between the 90+dpd and the GS 3 assets was largely because of the restructured accounts, which were undertaken as per the one-time restructuring scheme for SMEs as per RBI guidelines. ICRA notes that the company has taken cover under the CGTMSE scheme for its portfolio of around Rs. 553 crore as on June 30, 2020. Under the CGTMSE scheme, Kinara can claim 75% of the principal plus interest (3 months) on the loans covered under this scheme after a lock-in period of 1 year. However, the benefits from the scheme are likely to be visible in early Q4 FY2021 and timely resolution and compensation would remain a monitorable.

Given the current lockdowns and the likely impact of the pandemic on the income profile of the borrowers, the asset quality is likely to remain under pressure in the near term. Kinara provided a moratorium to its customers on an opt-in basis. As on July 31, 2020, around 44% of the AUM was under moratorium and about 75% of this remained under moratorium since April 2020. The collection efficiency stood at around 61% in July 2020.

The company has tightened its collection and recovery efforts and appointed collection officers in addition to recovery officers in the branches which are facing higher asset quality pressure. The collection officers will focus on payments from loans in the 0-60 dpd bucket while the recovery officers will focus on harder bucket loans to contain slippages. ICRA notes that Kinara has also tightened and augmented its information technology (IT) system and management information system (MIS) to improve loan monitoring. Kinara's ability to effectively control further slippages and revive the asset quality would be crucial going forward.

Moderate scale and geographically concentrated nature of operations – The company's current scale of operations remains moderate with an AUM of Rs. 853.4 crore as on March 31, 2020. The AUM reduced to Rs. 778.5 crore as on July 31, 2020 as incremental disbursements were minimal considering the market conditions post COVID-19. The company has steadily expanded its presence to six states with 110 branches though its portfolio remains concentrated in the top three states (Tamil Nadu, Karnataka and Maharashtra), which accounted for ~73% of the portfolio as on March 31, 2020. Kinara is targeting an AUM of ~Rs. 1,285 crore by March 2022 and expects to increase its co-lending book.

Subdued profitability largely because of high credit costs – Kinara's net profitability (PAT/AMA) moderated to 0.5% (provisional; annualised) in Q1 FY2021 vis-à-vis 1.8% in FY2020 as the credit cost increased to 2.9% (provisional; annualised) in Q1 FY2021 from 1.5% in FY2020. In FY2019, the company reported net losses of Rs. 7.7 crore as per Ind-AS vis-à-vis a profit of Rs. 8.3 crore under IGAAP largely because of the increased provision requirement under the expected credit loss (ECL). The provision requirement in FY2020 reduced on account of the CGTMSE cover, which became effective from September 2019. Thus, the overall credit cost was lower in FY2020 (1.5% of AMA) compared to FY2019 (4.9% of AMA), although the write-offs increased to 2.5% of AMA in FY2020 from 1.1% of AMA in FY2019. Increased collection efforts and other initiatives for augmenting its IT and internal MIS increased the operating expense ratio (operating expenses/AMA) to 8.3% in FY2020 from 7.5% in FY2019. The company's ability to keep its credit cost and operating efficiencies under control would be crucial for incremental profitability.

Liquidity position: Adequate

Kinara had unencumbered cash and liquid investments of Rs. 122.6 crore as of August 31, 2020 while its repayment obligations during September-November 2020 are Rs. 153.6 crore. Monthly collections, which were impacted by the Covid-19-related lockdown in April 2020, improved to Rs. 35 crore (~70% of total demand) in August 2020 from Rs. 21.6 crore (~41% of total demand) in April 2020. Further, the company is expecting fresh sanctions from lenders, which are in various stages of approval. Kinara's liquidity profile is therefore estimated to be adequate at present, considering the above.

Kinara's borrowings, as on August 31, 2020, remained skewed towards non-banking financial companies/financial institutions (NBFCs/FIs; 42.7% of the total borrowings; 30.7% in the form of term loans and 12.0% in the form of debentures) while debentures from Foreign Portfolio Investors (FPI) and Alternate Investment Funds (AIFs), and term loans from banks formed 36.5%, 5.2% and 15.7%, respectively. ICRA notes that the company has breached some financial covenants with its lenders (6.9% of total borrowings as of March 2020) and has applied for temporary relaxation from the same. It has also amended the terms (extension in terms/change in asset cover) for two of its NCDs, with consent from the investors, one of which is rated by ICRA. Considering the above, the ability to secure debt funding in a timely manner would be crucial for growth while maintaining an adequate liquidity profile.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade is less likely in the near term. The outlook could be revised to Stable if the company improves its asset quality on a sustained basis, leading to an improvement in its earnings.

Negative triggers – ICRA could downgrade the ratings if Kinara's asset quality deteriorates further, impacting its earnings. The weakening of the funding profile or a significant increase in the leverage from the expected levels, on a sustained basis, would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Visage Holdings & Finance Pvt. Ltd. (Kinara/the company) is a non-deposit taking non-banking financial company (NBFC), incorporated in Delhi in 1996. The current promoters acquired Kinara in September 2011 and commenced lending operations in November 2011.

Kinara offers credit facilities to small businesses under the brand name Kinara Capital. It provides secured (hypothecation of machinery) and unsecured term loans and working capital facilities with a maximum ticket size of Rs. 25 lakh. Currently, the company operates in Karnataka, Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh and Telangana with its head office in Bangalore. As on March 31, 2020, Kinara was operating in six states through 110 branches and had a managed portfolio of Rs. 884.8 crore.

Key financial indicators (audited)

	FY2019*	FY2020*
Total Income (Rs. crore)	143.8	221.7
Profit after Tax (Rs. crore)	(7.7)	18.1
Net Worth (Rs. crore)	164.6	200.8
Total Managed Portfolio (Rs. crore)	722.9	884.8
Total Managed Assets (Rs. crore)	989.3	1,069.7
Return on Managed Assets (%)	-1.1%	1.8%
Return on Net Worth (%)	-5.9%	9.9%
Gearing (times)	4.6	3.9
Gross NPA (%)^	5.2%	6.1%
Net NPA (%)^	3.0%	3.6%
Capital Adequacy Ratio (%)	33.9%	28.8%

*As per audited Ind-AS financials; All ratios as per ICRA calculations; ^Gross stage 3 as per Ind-AS

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated	Amount Outstanding	Current Rating (FY2021)			Rating History for the Past 3 Years					
					Rating	FY2021		FY2020	FY2019			FY2018	
					16-Sep-20	07-Sep-20	18-May-20	14-Feb-20	13-Mar-19	18-Oct-18	18-Sep-18	4-Apr-18	25-Jan-18
1	Term Loan	LT	50.00	50.00	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	NCD programme	LT	77.35	77.35	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Stable)	-
3	CP programme	ST	50.00	NA	[ICRA]A3	-	-	-	-	-	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan 1	30-01-2018	11.80%	28-04-2021	4.71	[ICRA]BBB-(Negative)
-	Term loan – unallocated	-	-	-	45.29	[ICRA]BBB-(Negative)
INE200W07043	NCD	25-05-2018	13.00%	24-05-2024	32.00	[ICRA]BBB-(Negative)
INE200W07068	NCD	17-10-2018	12.25%	17-10-2021	17.50	[ICRA]BBB-(Negative)
INE200W07118	NCD	07-03-2019	12.00%	08-11-2022	26.35	[ICRA]BBB-(Negative)
NA	NCD*	-	-	-	1.50	[ICRA]BBB-(Negative)
NA	CP programme	NA	NA	NA	50.00	[ICRA]A3

Source: Kinara; *yet to be placed

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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