September 15, 2023(Revised)

Kinara Capital Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD programme	74.37	74.37	[ICRA]BBB (Positive); Reaffirmed and outlook revised to Positive from Stable
NCD programme	32.00	-	[ICRA]BBB (Positive); Reaffirmed, outlook revised to Positive from Stable and withdrawn
CP programme	60.00	60.00	[ICRA]A3+; Reaffirmed
Long-term fund based – Term loan	114.60	114.60	[ICRA]BBB (Positive); Reaffirmed and outlook revised to Positive from Stable
Short-term fund based – Term loan	25.00	25.00	[ICRA]A3+; Reaffirmed
Total	**305.97**	**273.97**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the outlook to Positive factors in the expected improvement in Kinara Capital Private Limited's (Kinara) earnings and asset quality going forward. The net profitability[1] improved to 1.6% in FY2023 (1.0% in FY2022) and further to 2.9% in Q1 FY2024. Kinara's delinquencies improved with the 0+ days past due (dpd) [2] reducing to 6.3% as of March 31, 2023 from 9.8% as of March 31, 2022 and the 90+dpd improving to 3.3% as of March 31, 2023 from 4.7% as of March 31, 2022. Kinara has steadily been strengthening its underwriting and collection processes over the last few years, which ICRA believes is crucial for keeping the asset quality under control considering the modest customer profile, as the company scales up. This shall augment its overall financial risk profile. The company is expected to grow its assets under management (AUM) at a compound annual growth rate (CAGR) of about 50-60% during FY2024-FY2026.

The ratings also take into consideration Kinara's strengthened capital profile, supported by regular equity infusions in the recent past, and its track record of operations in the micro, small, and medium enterprises (MSME) and small business lending segment. The company received a fresh equity infusion of Rs. 405.8 crore in FY2023 (Rs. 208.1 crore in April 2022 and Rs. 197.7 crore in September 2022), leading to a significant increase in its net worth to Rs. 683.6 crore in March 2023 (Rs. 706 crore in June 2023) from Rs. 245.3 crore in March 2022. The ratings take cognizance of the company's geographically concentrated operations with the top 3 states accounting for 73.4% of the portfolio as of June 30, 2023 (73.6% as of March 31, 2022).

ICRA has simultaneously reaffirmed, changed the outlook to Positive and withdrawn the long-term rating outstanding on the Rs. 32-crore non-convertible debentures (NCDs) as the instruments have been fully repaid. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

[1] *Profit after tax (PAT)/Average managed assets (AMA)*

[2] *Dpd numbers are reported net of CGTMSE claims received*

Key rating drivers and their description

Credit strengths

Capital profile supported by regular infusions – The company secured an equity infusion of Rs. 405.8 crore in FY2023 in two tranches (Rs. 208.1 crore in April 2022 and Rs. 197.7 crore in September 2022), which strengthened its capital profile and supported the growth during the financial year. Accordingly, its net worth increased to Rs. 683.6 crore as of March 31, 2023 from Rs. 245.3 crore as of March 31, 2022. Consequently, the capital-to-risk weighted assets ratio (CRAR) improved to 32.0% as of March 31, 2023 (29.4% as of June 30, 2023) from 18.5% as of March 31, 2022. The reported gearing improved to 2.4 times as on March 31, 2023 (4.6 times as on March 31, 2022) and the managed gearing[3] reduced to 3.7 times as on March 31, 2023 (adjusted gearing [4] of 2.8 times) from 5.9 times as of March 31, 2022 (adjusted gearing of 5.3 times). ICRA also takes note of the proposed capital to be raised in the near term, which will further bolster the overall risk profile and support the envisaged portfolio growth.

Track record of operations in the MSME segment and evolved credit underwriting and collections processes, which will support growth – Kinara has an established track record of around 12 years in the MSME segment, having commenced operations in FY2011. It provides loans to small businesses for asset purchase and working capital requirements. Kinara has a presence in 6 states with 133 branches as of June 2023. The portfolio is largely concentrated in the southern states with the top 4 states – Tamil Nadu, Karnataka, Andhra Pradesh and Maharashtra – together accounting for around 88% of the AUM as on June 30, 2023. While its geographical concentration is expected to continue over the medium term, it is expected to increase its product diversification, supported by the introduction of short-term working capital, bill discounting products and loan against property to cater to the requirements of its target segment. Kinara's portfolio increased by 96% year-on-year (YoY) to Rs. 2,487 crore in FY2023 and further by 7.5% in Q1 FY2024 (Rs. 2,673 crore as of June 2023) as disbursements gained momentum. Of this, the off-book had grown by 192% YoY in FY2023. ICRA takes note of Kinara's target to increase its AUM to ~Rs. 4,000-4,500 crore by March 2024.

Kinara has an experienced management team, which has enabled it to continuously improve its lending and monitoring systems that are crucial to support its AUM growth, given the borrower profile. The company undertakes central credit review to crosscheck documents submitted by customers, followed by field appraisals. Kinara has also developed an automated loan decisioning system, which uses multiple parameters to underwrite the borrower's risk profile and decide on loan approval, amount, tenure and risk-adjusted interest rate. Post disbursement, loan utilisation checks take place to validate the end use.

Kinara also has an established collection and recovery mechanism backed by a field-based collection team and collection priority algorithms. The collection team includes collection officers, resolution officers and a legal team. The collection priority index data model helps predict the probability of collection against the overdue customers for a particular month, helping the company take appropriate action. Customers also get repayment reminder calls and field visits based on an early warning signal model. Most of the collections are through digital wallets. Cash accounts for less than 5% of the overall EMI collection at present. However, the company intends to make collections 100% non-cash. Incrementally, it continues to invest in technology, which will help enhance the operational efficiency and support its medium-term growth plans.

Credit challenges

Subdued profitability, expected to improve with envisaged portfolio scale-up – Kinara's net profitability (PAT/AMA) improved marginally to 1.6% in FY2023 from 1.0% in FY2022, supported by higher interest margins and the net gain on servicing assets (from co-lending transactions). The net profitability was, nevertheless, impacted by higher credit costs. The credit cost

---

[3] *Managed gearing = (On-book borrowings + Total off-book exposure)/Net worth*

[4] *Adjusted gearing = (On-book borrowing)/(Net worth – First loss given default extended for co-lending exposure)*

increased to 3.5% in FY2023 from 2.6% in FY2022 owing to the write-off of Rs. 74.2 crore with the change in the company's write-off policy to 360+dpd from 540+dpd during the year. The collection and recovery mechanisms are strengthened by ensuring last mile field-based collections, driven by early warning signals and the collection priority algorithms. Initiatives to augment the information technology (IT) system and internal management information system (MIS) have supported some improvement in the operating costs (operating expenses/AMA) even as the AUM expanded significantly. Kinara's operating costs remained elevated at 6.2% in FY2023, though lower than 7.3% in FY2022. Going forward, ICRA expects further improvement, supported by better economies of scale.

Kinara has been increasing its share of disbursement of higher interest rate loans over the last two years (loans with an interest rate of more than 30% accounted for 17.8% of the portfolio as of March 2023 compared to 2.7% as of March 2020), which supported its yields. While the profitability remained modest in FY2023, the envisaged portfolio scale-up, diversification of products and increased productivity, backed by technological upgradation undertaken in the past, are expected to improve the profitability in the near-to-medium term. Kinara reported a net profitability of 2.9% in Q1 FY2024. Its ability to improve its liability profile, through further diversification of its lenders, and obtain funds at competitive rates would also remain crucial for sustaining the improvement in its profitability metrics.

Moderate customer profile – The company provides loans to small businesses for asset purchase and working capital requirements. It offers short and medium-term loans with tenures of 6 months to 72 months and ticket sizes in the range of Rs. 50,000 to Rs. 40 lakh. The borrowers are usually traders (62.1% in June 2023) and small manufacturers (34.6% in June 2023), a largely underserved and unserved segment, which is susceptible to economic shocks. The share of borrowers who are new to credit is currently less than 12%. The share of unsecured loans increased to around 87% in FY2023 (80.5% in FY2022) from 57.3% in FY2021. ICRA notes the inherent risk in the portfolio due to the unsecured nature of the loans, the moderate credit profile of the borrowers and the modest seasoning of the loans, given the strong AUM growth. Reflecting this moderate credit profile, the gross stage 3 (GS3) assets was relatively high at 5.5% as of June 30, 2023 (5.6% as of March 31, 2023) vis-à-vis 8.6% as of March 31, 2022 despite improving in recent times. The 0+dpd stood at 7.6% as of June 30, 2023 (6.3% as of March 31, 2023) vis-à-vis 9.8% as of March 31, 2022. However, write-offs had increased to Rs. 74.2 crore in FY2023 (3.0% of the AUM and 4.5% of GCA (Gross Carrying Asset)) from Rs. 31.2 crore in FY2022 (2.5% of the AUM and 3% of GCA); Kinara wrote off around Rs. 20 crore in Q1 FY2024. ICRA takes note of the change in the write-off policy from October 01, 2022 (360+dpd from 540+dpd), which partially contributed to the increase. The standard restructured portfolio also declined to 1.1% of the gross on-book exposure as of March 31, 2023 from 4.5% as of March 31, 2022.

ICRA notes that about 15% of Kinara's portfolio, as of June 30, 2023, was covered under various guarantee schemes of Credit Guarantee Fund for Micro Units (CGMFU), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Emergency Credit Line Guarantee Scheme (ECLGS), etc. Adjusting for the portfolio covered under these schemes, the net non-performing advances (NPAs on AUM basis) stood at 1.8% as of June 2023 (2.2% as of March 2023 and 1.4% as of March 2022). The company has recovered around Rs. 30.35 crore till date under the guarantee schemes.

Going forward, Kinara's ability to keep its asset quality under control, while growing its loan book, would be a key rating monitorable.

Liquidity position: Adequate

Kinara had unencumbered cash and liquid investments of Rs. 454.6 crore as of June 30, 2023. The company is also expected to have collections of Rs. 780.4 crore between July 2023 and December 2023. As such, its liquidity position is expected to be adequate for meeting the scheduled debt repayments (including interest) of Rs. 333.3 crore during July-December 2023.

Kinara's lender profile, as on March 31, 2023, comprised debentures from foreign portfolio investors (FPIs; 33% of the total borrowings), followed by non-banking financial companies (NBFCs)/financial institutions, term loans from banks, external commercial borrowings (ECBs) and alternative investment funds (AIFs) at 32%, 21%, 11% and 3%, respectively. ICRA notes that the company was in breach of some financial covenants with its lenders and has received temporary relaxation from some of the lenders towards the same.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the ratings if the company continues to demonstrate an improvement in its profitability indicators and funding profile while scaling up its AUM.

Negative factors – Pressure on the company's ratings could arise if there is a deterioration in its asset quality or earnings profile. Weakening of its capitalisation metrics (managed gearing exceeding 5 times on a sustained basis) would also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Kinara Capital Private Limited is a non-deposit taking NBFC, incorporated in 1996. The current promoters acquired Kinara in September 2011 and commenced lending operations in November 2011. It provides secured (hypothecation of machinery) and unsecured term loans and working capital facilities with a maximum ticket size of Rs. 40 lakh. Currently, the company operates in six states, namely Karnataka, Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh and Telangana, with its head office in Bengaluru. As on March 31, 2023, Kinara had 125 branches with an AUM of Rs. 2,487.3 crore (AUM of Rs. 2,673.1 crore as of June 30, 2023).

Key financial indicators (audited)

Kinara Capital Private Limited	FY2021	FY2022	FY2023
Total income	236.0	285.9	491.6
Profit after tax	7.5	14.6	41.2
Net worth	230.8	245.3	683.6
Managed loan book	957.8	1,327.1	2,545.2
Total managed assets	1,237.7	1,799.1	3,435.0
Return on managed assets	0.6%	1.0%	1.6%
Return on net worth	3.5%	6.1%	8.9%
Adjusted gearing (times)	3.7	5.3	2.8
Managed gearing (times)	4.0	5.9	3.7
Gross stage 3	10.4%	8.6%	5.6%
Net stage 3	8.2%	5.9%	4.6%
Solvency (Net stage 3/Net worth)	30.2%	23.7%	11.0%
CRAR	29.2%	18.5%	32.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021		
					Sept 15,2023	Sept 28, 2022	Jul 22, 2022	Nov 09, 2021	Jul 06, 2021 Apr 19, 2021	Oct 28, 2020 Sep 16, 2020	Sep 07, 2020	May 18, 2020
1	NCD programme	Long term	4.85	-	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
2	NCD programme	Long term	69.52	69.52	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	-	-	-	-	-	-
3	NCD programme	Long term	32.00	-	[ICRA]BBB (Positive); withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
4	CP programme	Short term	60.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	-
5	Long-term fund based – Term loan	Long term	114.60	97.98	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
6	Short-term fund based – Term loan	Short term	25.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple
CP programme	Very Simple
Long-term fund based – Term loan	Simple
Short-term fund based – Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE200W07290	**NCD programme**	Sep 07, 2022	11.75%	Mar 07, 2028	69.52	[ICRA]BBB (Positive)
INE200W07183	**NCD programme**	May 25, 2018	12.60%	Dec 24, 2024	32.00	[ICRA]BBB (Positive); Withdrawn
Unallocated	**NCD programme**	NA	NA	NA	4.85	[ICRA]BBB (Positive)
Unallocated	**CP programme**	NA	NA	NA	60.00	[ICRA]A3+
-	**Long-term fund based – Term loan**	Mar 31, 2022 to Jun 30, 2023	NA	Apr 01, 2024 to Aug 31, 2025	97.98	[ICRA]BBB (Positive)
Unallocated	**Long-term fund based – Term loan**	NA	NA	NA	16.62	[ICRA]BBB (Positive)
Unallocated	**Short-term fund based – Term loan**	NA	NA	NA	25.00	[ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not Applicable

Corrigendum

The rating rationale document dated September 15, 2023 has been corrected with a revision in page 3, under the "Moderate customer profile" paragraph, as detailed below:

Previous Statement:

Reflecting this moderate credit profile, the gross stage 3 (GS3) assets was relatively high at 5.5% as of June 20, 2023 (5.6% as of March 30, 2023) vis-à-vis 8.6% as of March 31, 2022 despite improving in recent times.

Revised Statement:

Reflecting this moderate credit profile, the gross stage 3 (GS3) assets was relatively high at 5.5% as of June 30, 2023 (5.6% as of March 31, 2023) vis-à-vis 8.6% as of March 31, 2022 despite improving in recent times.

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91-44-4596 4308
a.karthik@icraindia.com

R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Ramya G
+91 44 4596 4309
ramya.g@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches