

February 12, 2024<sup>(Revised)</sup>

## Keertana Finserv Private Limited: [ICRA]BBB (Stable) assigned to NCDs; Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based term loans	40.00	40.00	[ICRA]BBB (Stable); reaffirmed
Short term – Fund-based working capital demand loans	20.00	20.00	[ICRA]A3+; reaffirmed
Long-term/Short-term fund based – Unallocated	440.00	440.00	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Non-convertible debentures (NCDs)	300.00	300.00	[ICRA]BBB (Stable); reaffirmed
	0.00	300.00	[ICRA]BBB (Stable); assigned
<b>Total</b>	<b>800.00</b>	<b>1,100.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The ratings continue to reflect the longstanding experience of Keertana Finserv Private Limited's (Keertana) promoter in the retail lending business, the adequate capitalisation supported by regular equity infusions, and the healthy asset quality and earnings profile. Keertana has been promoted by Ms. Padmaja Reddy, who is the founder, promoter and erstwhile Managing Director (MD) of Spandana Sphoorty Financial Limited (SSFL; non-banking financial company-microfinance institution (NBFC-MFI)). Keertana's assets under management (AUM) increased to Rs. 609.2 crore as of March 2023 and further to Rs. 1,204.2 crore as of December 2023 from Rs. 268.9 crore as of June 2022. It has a presence in segments such as gold loans, joint liability group (JLG) loans, micro, small and medium enterprise (MSME) loans, loan against property (LAP) and intends to diversify into home loans (HLs) as well.

Keertana received capital of Rs. 149.2 crore<sup>1</sup> in FY2023 and Rs. 78.0 crore in 9M FY2024 from the promoters, who intend to infuse further capital in the near term in view of the company's steep growth plans. ICRA notes the healthy net profitability (profit after tax (PAT)/average managed assets (AMA) of 3.4% in FY2023 and 6.2% in 9M FY2024), supported by the strong net interest margin and limited credit costs. Going forward, Keertana's ability to sustain healthy asset quality and earnings, as it expands, and increase the share of the non-gold loan businesses remains to be seen.

Keertana's operations are geographically concentrated at present with Andhra Pradesh contributing 91% to the AUM as of December 2023. However, ICRA takes comfort from the steady strengthening of the operating infrastructure, including branch expansion/field staff, which shall support the company's medium-term growth and diversification plans. It is, however, crucial for the company to have a stable senior management team along with commensurate risk and control mechanisms in view of its growth plans.

The share of loans from promoters and related entities declined to NIL as of December 2023 (14% as of June 2023) from 61% as of June 2022. Non-convertible debentures (NCDs) contributed 37% to the total borrowings as of December 2023, followed by NBFCs at 26%, banks at 23% (including small finance banks of 11%) and securitisation (14%). During the last 12-15 months, the company was able to raise funds from multiple sources, including a few banks and via NCDs and the securitisation route.

<sup>1</sup> Rs. 109.2 crore in April 2022, Rs. 10 crore in September 2022 and Rs. 30 crore in November 2022

Nevertheless, it would be crucial for the company to improve its borrowing profile by increasing the share of banks, which could support its steep growth plans and lower its cost of borrowing.

## Key rating drivers and their description

### Credit strengths

**Longstanding experience of promoters in retail lending business** – Keertana is a non-deposit taking NBFC, incorporated in 1996. It received its NBFC licence from the Reserve Bank of India (RBI) in 2001. The company did not have any operations till the current promoters acquired it on March 31, 2022. Ms. Reddy is the founder and ex-MD of SSFL with vast experience in handling microfinance, gold loans, agriculture and related loans, LAP and MSME loans. The current team comprises personnel with adequate experience, though there has been some attrition in the senior management levels since inception. It would be crucial for the company to have a stable senior management team, with timely augmentation of the same in view of its growth plans. While ICRA takes comfort from the steady strengthening of the operating infrastructure, including branch expansion/field staff, which would support the medium-term growth plans, it would be crucial for Keertana to ramp up its risk and control mechanisms accordingly.

**Capitalisation profile sufficient for near term; timely capital infusions critical for medium-term growth plans** – Keertana's capitalisation profile, with a gearing of 4.1 times and a capital adequacy ratio of 27.0% as of December 2023, continues to be supported by regular capital infusions from the promoters. It had received incremental capital of Rs. 149.2 crore and Rs. 78.0 crore from its promoters in FY2023 and 9M FY2024, respectively. Given the steep growth plans, ICRA expects that Keertana would require an incremental capital infusion, which is expected to be provided by the promoters. The promoters had a stake of 11.7% in SSFL as on December 31, 2023 and have adequate financial flexibility to infuse capital to support growth. Keertana is expected to keep its leverage at around 4 times in the medium term.

**Healthy asset quality and earnings profile<sup>2</sup>; sustainability of the same over the medium term remains crucial** – Keertana maintained healthy asset quality, recording 90+ days past due (dpd) of 0.01% as of December 2023 (0.01% as of March 2023), leading to limited credit costs during this period. The net interest margin was healthy at 11.6% in FY2023 and 11.4% in 9M FY2024 (12.2% in 9M FY2024 basis the quarterly average of the total assets between March 2023 and December 2023). ICRA expects the blended yields, and consequently the interest margins, to remain strong on the back of the increasing exposure towards the high-yielding segments, i.e. group loans and LAP.

The operating expenses ratio (operating expenses/AMA) improved to 4.2% in 9M FY2024 from 6.1% for FY2023 due to the healthy portfolio growth with limited branch expansion. The AUM per active branch improved to Rs. 4.8 crore as of December 2023 from Rs. 3.3 crore as of March 2023. The company has diversified its exposures to group loans and LAP in the recent past. Overall, the net profitability stood at 3.4% in FY2023 and 6.2% in 9M FY2024, supported by improved operating efficiency and limited credit costs. Going forward, Keertana's ability to maintain the healthy asset quality on a sustained basis would be a key monitorable, given its limited business vintage.

### Credit challenges

**Steep growth plans; geographically concentrated operations** – Keertana commenced operations in April 2022 with the takeover of assets from Spandana Mutual Benefit Trust (SMBT) and Spandana Rural and Urban Development Organization (SRUDO). Its AUM increased to Rs. 609.2 crore as of March 2023 and further to Rs. 1,204.2 crore as of December 2023, largely driven by group loans followed by gold loans. The company had 304 branches as of December 2023, of which 249 were

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<sup>2</sup> Ratios for FY2023 are as per ICRA's calculations; adjustments have been made taking into consideration the transfer of assets from Group entities to Keertana as on April 4, 2022. If the ratios are computed based on the reported financial statements, the net interest margin, operating expenses/AMA and PAT/AMA would have been 15.3%, 8.1% and 4.5%, respectively

operating with the rest expected to commence operations shortly. Gold loans contributed 44% to the AUM as of December 2023 (63% as of March 2023), while group loans, MSME and LAP accounted for 44%, 7% and 5%, respectively.

Keertana is scaling down its MSME loans, which are unsecured in nature, in view of the initial asset quality trends. It is strengthening its processes and policies further to scale up the secured business loan and home loan disbursements from April 2024. The portfolio mix is expected to be inclined towards the secured segments as LAP and HL pick up the pace over the medium term. Keertana is planning a robust pace of branch expansion and expects to achieve a loan portfolio of Rs. 2,500 crore as of March 2025. It expects to increase its branch network to 400 by March 2025 to support its steep growth plans. The operations are geographically concentrated at present, with Andhra Pradesh contributing 91% to the AUM as of December 2023. However, the company plans to increase the share of its portfolio in Telangana, Karnataka, Odisha and Tamil Nadu.

The ratings factor in the risks associated with the marginal borrower profile and the sizeable share of unsecured lending along with the challenges associated with a high pace of growth and employee attrition.

**Scope for improvement in funding profile** – Over the last one year, Keertana secured funding from multiple sources including NBFCs, banks, market issuances (NCDs) and securitisation. In the recent past, NCDs were largely raised via debt platforms with some participation from retail and high-net-worth individual (HNI) investors. NCDs contributed 37% to the total borrowings as of December 2023, followed by NBFCs at 26%, banks at 23% (including small finance banks of 11%) and securitisation at 14%. Going forward, it would be crucial for the company to strengthen its borrowing profile by increasing the share of banks, which could support its steep growth plans and lower its cost of borrowing.

### Liquidity position: Adequate

Keertana has adequate liquidity with cash and cash equivalents of Rs. 277.0 crore and undrawn sanctions of Rs. 36.5 crore as on December 31, 2023. The company has repayments of Rs. 236.9 crore due during January-March 2024 (including interest of Rs. 30.8 crore). No cumulative mismatches were observed in the asset-liability maturity (ALM) profile, as on December 31, 2023, as most of the loans extended by Keertana are short term in nature.

### Rating sensitivities

**Positive factors** – The scaling up of the portfolio and an improvement in the borrowing profile, while maintaining healthy earnings and asset quality, could lead to a rating upgrade.

**Negative factors** – Weakening asset quality or operational efficiency, which could affect the earnings profile, putting pressure on the ratings. A stretched capitalisation profile could also adversely impact the ratings.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Non-banking Finance Companies</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of Keertana

### About the company

Keertana Finserv Private Limited (Keertana) is a non-deposit taking NBFC. It was incorporated in February 1996 as Rajshree Tracom Pvt Ltd and received its NBFC licence in 2001 from the RBI. The company was dormant with no business till the current promoters acquired it at the end of March 2022. Following the approval from the RBI for a change in management and control, the current promoters purchased all the shares of the erstwhile promoters. The company is currently managed by Ms. Padmaja Reddy, the erstwhile Managing Director of Spandana Sphoorty Financial Limited (SSFL; NBFC-MFI). Keertana acquired its gold

loan business from SMBT (Rs. 191 crore) and the MSME business from SRUDO (Rs. 14 crore) as per a business transfer agreement dated April 04, 2022.

Keertana's AUM stood at Rs. 1,204.2 crore through 304 branches (249 operational) as of December 2023. Gold loans and JLG contributed 44% each to the AUM while MSME and LAP accounted for 7% and 5%, respectively, as of December 2023. Keertana reported a net profit of Rs. 16.0 crore on a managed asset base of Rs. 700.6 crore in FY2023 compared with a net profit of Rs. 0.2 crore on a managed asset base of Rs. 2.8 crore in FY2022. It reported a provisional net profit of Rs. 52.2 crore on a managed asset base of Rs. 1,549.1 crore in 9M FY2024.

### Key financial indicators

Keertana – Standalone	IGAAP	Ind-AS	Ind-AS
	Audited	Audited	Provisional
	FY2022	FY2023	9M FY2024
Total income	0.3	91.8	187.2
Profit after tax	0.2	16.0	52.2
Total managed assets	2.8	700.6	1,549.1
Return on managed assets	7.0%	4.5% (3.4%#)	6.2%
Managed gearing (times)	0.0	3.0	4.1
Gross stage 3	0.0%	0.0%	0.0%
CRAR	144.5%	26.0%	27.0%

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

Managed gearing = (on-book debt + off-book portfolio) / net worth

# As per ICRA's calculations; Adjustments have been made taking into consideration the transfer of assets from Group entities to Keertana as on April 04, 2022.

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Feb 12, 2024	Jul 31, 2023 Aug 07, 2023			
1 Long term – Fund-based term loans	Long term	40.00	40.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
2 Short term – Fund-based working capital demand loans	Short term	20.00	20.00	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	-	-
3 Long-term/Short-term fund based – Unallocated	Long term/ Short term	440.00	0.00	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-
4 NCD	Long term	300.00	290.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-
5 NCD – Fresh	Long term	300.00	0.00	[ICRA]BBB (Stable)	-	-	-	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term – Fund-based term loans	Simple
Short term – Fund-based working capital demand loans	Simple
Long-term/Short-term fund based – Unallocated	Simple
Non-convertible debentures	Very 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	Date of issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund-based term loans	Jul-20-22	13.00%	Jul-19-24	40.00	[ICRA]BBB (Stable)
NA	Short term – Fund-based working capital demand loans	Jul-25-22	13.00%	Jul-24-23	20.00	[ICRA]A3+
NA	Long-term/Short-term fund based – Unallocated	-	-	-	440.00	[ICRA]BBB (Stable)/ [ICRA]A3+
INE0NES07055	NCD	Aug-28-23	11.60%	Feb-28-25	30.00	[ICRA]BBB (Stable)
INE0NES07048	NCD	Sep-11-23	11.60%	May-11-25	50.00	[ICRA]BBB (Stable)
INE0NES07048	NCD	Sep-26-23	11.60%	May-11-25	50.00	[ICRA]BBB (Stable)
INE0NES07071	NCD	Nov-28-23	11.60%	Nov-28-25	50.00	[ICRA]BBB (Stable)
INE0NES07071	NCD	Dec-15-23	11.60%	Nov-28-25	110.00	[ICRA]BBB (Stable)
Unallocated	NCD	-	-	-	310.00	[ICRA]BBB (Stable)

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 February 12, 2024 has been corrected with the revision as detailed below:

- 1) Changes made in Page-5 (Date of issuance and Maturity date under Annexure I).

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