

June 10, 2024

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/Short term – Fund-based/Non-fund based bank facilities	0.00	500.00	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Long term – Fund based term loans	40.00	0.00	-
Short term – Fund based working capital demand loans	20.00	0.00	-
Long term/Short term – Unallocated	440.00	0.00	-
Non-convertible debentures (NCDs)	800.00	800.00	[ICRA]BBB (Stable); reaffirmed
	0.00	400.00	[ICRA]BBB (Stable); assigned
Total	1,300.00	1,700.00	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to reflect the long-standing 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. 1,561.5 crore as of March 2024 from Rs. 609.2 crore as of March 2023 (Rs. 268.9 crore as of June 2022), witnessing robust growth of 156%. It has a presence in segments such as gold loans, joint liability group (JLG) loans, micro, small and medium enterprise (MSME) loans, and loan against property (LAP); it intends to diversify into home loans (HLs) as well. Keertana is planning branch expansion at a robust pace and expects to achieve a loan portfolio of Rs. 3,500 crore as of March 2025 and Rs. 6,000 crore as of March 2026. ICRA notes that the company recently discontinued cash disbursements and collections of more than Rs. 20,000 in the gold loan segment (from May 2024), in line with the regulatory direction. The business impact of the above would be a monitorable in the near term.

Keertana received capital of Rs. 149.2 crore in FY2023 and Rs. 147.5 crore in FY2024 mainly 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 5.9% in FY2024 and 3.4% in FY2023), supported by the strong net interest margin, limited credit costs and improved operating efficiency. Going forward, Keertana's ability to sustain healthy asset quality and earnings, as it expands, remains to be seen.

Keertana's operations are geographically concentrated at present with Andhra Pradesh contributing 88% to the AUM as of March 2024. 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 Keertana 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 March 2024 (14% as of June 2023) from 61% as of June 2022. Non-convertible debentures (NCDs) contributed 38% to the total borrowings as of March 2024, followed by NBFCs at 25%, banks at 23% (including 11% from small finance banks) and securitisation at 14%. During the last 15-18 months,

the company was able to raise funds from multiple sources, including a few banks and via NCDs and the securitisation route. Nevertheless, it would be crucial for Keertana 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

Long-standing 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 at 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 3.3 times and a capital adequacy ratio of 23.7% as of March 2024, continues to be supported by regular capital infusions from the promoters. It had received incremental capital of Rs. 149.2 crore and Rs. 147.5 crore, mainly from its promoters, in FY2023 and 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 11.6% in SSFL as on March 31, 2024 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 profile¹; however, sustainability of the same over the medium term would be crucial – Keertana maintained healthy asset quality, recording 90+ days past due (dpd) of 0.05% as of March 2024 (0.01% as of March 2023), leading to limited credit costs during this period. The net interest margin was strong at 11.6% in FY2023 and FY2024. ICRA expects the blended yields, and consequently the interest margins, to moderate on account of the focus on secured loans in the near to medium term, notwithstanding the expected improvement in the cost of funds.

The operating expense ratio (operating expenses/AMA) declined to 3.9% in FY2024 from 5.7% in FY2023 due to healthy portfolio growth with limited branch expansion. The AUM per active branch improved to Rs. 5.5 crore as of March 2024 from Rs. 3.3 crore as of March 2023. Overall, the net profitability stood at 5.9% in FY2024 and 3.4% in FY2023, supported by healthy margins, limited credit costs and improvement in the operating efficiency. Going forward, Keertana's ability to maintain the healthy performance of its 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. 1,561.5 crore as of March 2024 from Rs. 609.2 crore as of March 2023 (Rs. 268.9 crore as of June 2022), witnessing robust growth of 156%. The company had 345 branches as of March 2024, of which 286 were

¹ 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 15.2%, 7.4% and 4.5%, respectively

operating with the rest expected to commence operations shortly. Gold loans contributed 44% to the AUM as of March 2024, while JLG loans, LAP, MSME and personal loans accounted for 42%, 5%, 4% and 4%, respectively.

Keertana is scaling down its unsecured MSME loans, in view of the initial asset quality trends. It is strengthening its processes and policies further to scale up the secured business loan and HL disbursements. The portfolio mix is expected to be inclined towards the secured segments as LAP and HL pick up pace over the medium term. Keertana is planning branch expansion at a robust pace and expects to achieve a loan portfolio of Rs. 3,500 crore as of March 2025 and Rs. 6,000 crore as of March 2026. It expects to increase its branch network to 500 by March 2025 and 715 by March 2026 to support its steep growth plans. The portfolio mix is expected to be 70:30 (secured: unsecured) over the medium term.

The operations are geographically concentrated currently, with Andhra Pradesh contributing 88% to the AUM as of March 2024. However, the company plans to increase the share of portfolio in Telangana, Karnataka, Odisha and Tamil Nadu. ICRA notes that Keertana recently discontinued cash disbursements and collections of more than Rs. 20,000 in the gold loan segment (from May 2024), in line with the regulatory direction. The business impact of the above would be a monitorable in the near term.

The ratings factor in the risks associated with the marginal borrower profile, the sizeable share of unsecured lending and 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. NCDs contributed 38% to the total borrowings as of March 2024, followed by NBFCs at 25%, banks at 23% (including 11% from small finance banks) and securitisation at 14%. Going forward, 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.

Liquidity position: Adequate

Keertana has adequate liquidity with cash and cash equivalents of Rs. 58.9 crore and undrawn sanctions of Rs. 49.0 crore as on March 31, 2024. The company has repayments of Rs. 304.5 crore due during April-June 2024 (including interest). No cumulative mismatches were observed in the asset-liability maturity (ALM) profile, as on March 31, 2024, 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 – Pressure on the ratings could arise on weakening asset quality or operating efficiency, which could affect the earnings profile. A stretched capitalisation profile could also adversely impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
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. 1,561.5 crore through 345 branches (286 operational) as of March 2024. Gold loans contributed 44% to the AUM as of March 2024, while JLG loans, LAP, MSME and personal loans accounted for 42%, 5%, 4% and 4%, respectively. Keertana reported a provisional net profit of Rs. 71.6 crore on a managed asset base of Rs. 1,733.1 crore in FY2024 compared with a net profit of Rs. 16.0 crore on a managed asset base of Rs. 704.5 crore in FY2023.

Key financial indicators (audited)

Keertana Finserv Private Limited	FY2022	FY2023	FY2024
Total income	0.3	91.9	276.8
PAT	0.2	16.0	71.6
Total managed assets	2.8	704.5	1,733.1
Return on managed assets	7.0%	4.5% (3.4%#)	5.9%
Managed/ Adjusted/ Reported gearing (times)	0.0	3.0	3.3
Gross stage 3	0.0%	0.0%	0.0%
CRAR	145.4%	25.9%	23.7%

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

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 (FY2025)		Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Jun 10, 2024	May 09, 2024	Jul 31, 2023 Aug 07, 2023 Feb 12, 2024	Aug 26, 2022	-
1 Long term/Short term – Fund-based/Non-fund based bank facilities	Long term/Short term	500.00	500.00	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	-
2 NCD	Long term	800.00	800.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
3 NCD – Fresh	Long term	400.00	0.00	[ICRA]BBB (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Fund-based/Non-fund based bank facilities	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/Short term – Unallocated	-	-	-	500.00	[ICRA]BBB (Stable)/ [ICRA]A3+
INEONES07048	NCD	Sep-11-23	11.60%	May-11-25	50.00	[ICRA]BBB (Stable)
INEONES07048	NCD	Sep-26-23	11.60%	May-11-25	50.00	[ICRA]BBB (Stable)
INEONES07055	NCD	Aug-28-23	11.60%	Feb-28-25	30.00	[ICRA]BBB (Stable)
INEONES07063	NCD	Oct-20-23	11.60%	Jun-20-25	50.00	[ICRA]BBB (Stable)
INEONES07071	NCD	Nov-28-23	11.60%	Nov-28-25	50.00	[ICRA]BBB (Stable)
INEONES07071	NCD	Dec-15-23	11.60%	Nov-28-25	110.00	[ICRA]BBB (Stable)
INEONES07089	NCD	Feb-20-24	11.50%	Feb-20-26	110.00	[ICRA]BBB (Stable)
INEONES07097	NCD	Apr-12-24	11.40%	Apr-12-26	50.00	[ICRA]BBB (Stable)
INEONES07097	NCD	Apr-18-24	11.40%	Apr-12-26	25.00	[ICRA]BBB (Stable)
INEONES07097	NCD	May-02-24	11.40%	Apr-12-26	75.00	[ICRA]BBB (Stable)
INEONES07105	NCD	May-10-24	11.40%	May-10-26	175.00	[ICRA]BBB (Stable)
Unallocated	NCD				25.00	[ICRA]BBB (Stable)
Unallocated	NCD – Fresh	-	-	-	400.00	[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

ANALYST CONTACTS

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

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

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

Shaik Abdul Saleem
+91 40 6939 6464
shaik.saleem@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

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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