December 30, 2024 (Revised)

Vistaar Financial Services Pvt Ltd: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD programme	205.0	205.0	[ICRA]A+ (Stable); reaffirmed
Long-term fund based – Term loan	1,461.0	2,061.0	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced amount
Short-term fund based – Overdraft	39.0	39.0	[ICRA]A1+; reaffirmed
Total	**1,705.0**	**2,305.0**	

Instrument details are provided in Annexure I

Rationale

The ratings factor in Vistaar Financial Services Pvt Ltd's (VFSPL) experience in small business lending, its comfortable capital profile and healthy earnings performance. The company has a track record of almost 15 years in lending to small businesses; its assets under management (AUM) increased at a compound annual growth rate (CAGR) of 23% over the last five years, expanding to Rs. 4,054 crore as of March 2024 and stood at Rs. 4,575 crore as of September 2024. VFSPL's leverage is comfortable, with a managed gearing of 2.4 times as of September 2024 (2.3 times as of March 2024) and 2.9 times as of March 2023, supported by equity infusion of Rs. 327-crore in FY2024. The net profitability[1] stood at 3.8% in H1 FY2025 (3.6% in FY2024).

The ratings continue to consider VFSPL's comfortable asset quality position with its gross stage 3 (GS3) improving to 2.7% as of September 2024 (2.7% as of March 2024) from 3.8% as of March 2023. However, ICRA notes that delinquencies have risen in the current fiscal, with the company's 30+ days past due (dpd) increasing to 4.9% as of September 2024 from 4.2% as of March 2024. Although VFSPL is tightening its credit policies, collection processes, etc., its ability to restrict incremental slippages into harder buckets would be a key monitorable.

VFSPL's scale remains moderate and its operations continue to be regionally concentrated with the top 3 states accounting for 78% of its AUM as of September 2024. ICRA, however, expects the concentration to reduce gradually over the medium term as the portfolio expands.

The Stable outlook is based on the expectation that VFSPL's credit profile would be supported by its prudent capital profile and healthy earnings performance in the near term.

Key rating drivers and their description

Credit strengths

Experience in small business loan segment – VFSPL commenced operations in 2010. Its target customers include small businesses such as shops, small manufacturing units, power looms, kirana/general shops, and home-based industries, which have limited access to organised funding. It follows a cluster-based approach with branches in areas with high concentration of small businesses/micro enterprises. The company's growth and asset quality were impacted after demonetisation, especially in the small-ticket hypothecation loan segment (non-mortgage backed credit) and the dairy & allied segments.

[1] *Profit after tax / Average managed assets*

Consequently, VFSPL revised its product mix and has been focussing only on mortgage-backed credit products in recent years. Currently, its entire portfolio is backed by mortgage, with loans for housing purposes (end use) constituting about 24% of the AUM as of September 2024.

Comfortable capital structure – VFSPL had raised equity capital of Rs. 327 crore in FY2024. Of this, Rs. 300 crore was infused by private equity investor – Warburg Pincus, which acquired a majority stake and currently holds 90.4% in the company. Following the equity raise, the capitalisation profile was significantly strengthened, with the managed gearing improving to 2.4 times as of September 2024 (2.3 times as of March 2024) from 2.9 times as of March 2023. The capital-to-risk weighted assets ratio (CRAR) stood at 31.1% as of September 2024. Considering the company's envisaged growth plans, further capital infusions would not be required in the near term. ICRA draws comfort from the management's plan to maintain a prudent capitalisation level, with the managed gearing not exceeding 4.0 times over the near-to-medium term.

Healthy earnings performance – VFSPL's interest margins have remained range-bound over the last few years. Further, its operating efficiency improved with scale. Operating expenses, as a proportion of average managed assets, improved to 4.8% in H1 FY2025 from 5.2% in FY2024 (5.3% in FY2023). This helped expand the pre-provision operating profit to a healthy 6.0% in H1 FY2025 (5.2% in FY2024). The company undertook higher write-offs of Rs. 26.8 crore in H1 FY2025, partly due to the tightening of its technical write-off policy. This resulted in a slight increase in the credit costs to 1.2% of AMA in H1 FY2025 from 0.7% in FY2024. Notwithstanding the above, VFSPL's net profitability (return on managed assets; RoMA) has remained healthy, with its RoMA at 3.8% in H1 FY2025 (3.6% in FY2024) vis-à-vis 3.1% in FY2023. ICRA expects profitability of 3.3-3.8% over the near-to-medium term.

Comfortable asset quality; recent uptick in softer bucket delinquencies is monitorable – VFSPL's headline asset quality parameters have been witnessing a steady improvement over the last few years. Its GS3 stood at 2.7% as of March 2024 (2.7% as of September 2024) vis-à-vis 3.8% as of March 2023. The company, however, undertook higher write-offs in H1 FY2025.

VFSPL is also facing an uptick in delinquencies in the current fiscal, with its 30+dpd increasing to 4.9% as of September 2024 from 4.2% as of March 2024. Certain states in Central and West India have been witnessing an increase in delinquencies, given the company's relatively lower track record in these locations. VFSPL's client base comprises self-employed borrowers engaged in small businesses. Borrowers in this segment have incrementally come under stress on account of factors such as overleveraging, cash flow volatility etc. Correspondingly, the company has tightened its underwriting and collection processes and introduced certain early warning systems. In the near term, VFSPL's ability to restrict incremental slippages into harder buckets, supported by these aforesaid measures, would be a key monitorable.

Credit challenges

Scale remains moderate, notwithstanding growth; regionally concentrated operations – VFSPL's AUM had increased at a CAGR of 23% over the past five years. Nonetheless, its scale remains moderate with AUM of Rs. 4,575 crore as of September 2024 (Rs. 4,054 crore as of March 2024). The company expects the AUM to increase at a CAGR in the range of 25%-30% over the medium term. As of September, 2024, VFSPL's portfolio was largely concentrated in Tamil Nadu (39%), Karnataka (23%), Andhra Pradesh (16%) and Madhya Pradesh (5%). While expansion to new states has improved its geographical diversity, the top 3 states continued to account for about 78% of its total portfolio as of September 2024, exposing it to concentration-related risks. Going forward, VFSPL intends to grow and diversify its portfolio, which could result in a gradual reduction in the share of these states in the overall portfolio.

Sizeable share of loans with higher tenures, LTVs, ticket sizes; however, credit policies tightened in current fiscal – To retain borrowers with an established track record and increase its exposure to affordable home loans, the company had gradually increased its exposure to loans with higher tenures, lower yields and higher loan-to-value (LTV) ratios over the past few years. The share of higher-tenor loans (>84 months) rose to 78% of the AUM as of September 2024 (77% as of March 2024) from 15% as of March 2018, while the share of loans with LTV of more than 60% inched up to 29% as of September 2024 (29% as of March 2023) from 27% as of March 2020. However, ICRA notes that the company started tightening its credit policies in FY2025 with respect to various underwriting parameters, including LTV, ticket sizes and loan tenors, etc. This would support an improvement in the risk profile of VFSPL's loan exposures over the near-to-medium term.

The share of higher ticket size loans (>Rs. 20 lakh) moderated to 19.6% of the AUM as of September 2024 from 28.4% as of March 2024 as the company focused on granularising its loan book. Given VFSPL's predominant focus on upto 20 lakh loan ticket size category, loan concentration related risks would continue to improve over the medium term. Further, ICRA notes that the company has increased its exposure to a segment with a better risk profile. This is validated by the rise in the share of portfolio with a CIBIL score of more than 700 in recent years. However, a sizeable portion of the loan book continues to be targeted towards borrowers from the new-to-business loan segment.

Liquidity position: Strong

As on November 30, 2024, the company had unencumbered on-book liquidity of Rs. 332.4 crore and unutilised sanctioned bank credit lines of Rs. 540.0 crore against scheduled debt repayments of Rs. 667.4 crore, which are due between December 2024 and May 2025. The asset-liability maturity (ALM) profile, as of September 2024, reflected positive cumulative mismatches across all buckets.

As of September 2024, VFSPL had borrowings from around 49 lenders, comprising a mix of private sector banks (17), non-banking financial institutions/financial institutions (NBFCs/FIs; 13), public sector banks (8), small finance banks (5), foreign banks (2), mutual funds (2), and international FIs (2). The lender profile, as of September 2024, was skewed towards funding from banks, constituting 71% of the total borrowings, while external commercial borrowings (ECBs) from development FIs, non-convertible debentures (NCDs) and loans from NBFCs/FIs formed 15%, 9% and 5%, respectively.

Rating sensitivities

Positive factors – Material scale-up of the operations while maintaining a healthy asset quality and earnings profile.

Negative factors – Pressure on the ratings could arise on an increase in the managed gearing beyond 4 times on a sustained basis. Deterioration in the asset quality indicators with the GS3 crossing 4.5%, resulting in a decline in the RoMA on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Rating Methodology for Non-banking Finance Companies]
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

VFSPL is a Bengaluru-based non-banking financial company (NBFC) catering to small businesses. It commenced operations in 2010 with focus on microfinance (MF) loans. However, it shifted its focus to providing loans to micro, small and medium enterprises (MSMEs) in rural and semi-urban areas from April 2011 and stopped disbursing new MF loans from August 2011. The company mainly provides small business mortgage loans (SBMLs) at present. Small businesses funded by VFSPL include trading, kirana/general stores/shops, power/auto/handlooms, dairy and allied products, and small manufacturing units.

Warburg Pincus LLC had a majority stake in FY2024 and currently holds 90.4% in the company. As a part of this acquisition, it had infused capital of Rs. 300 crore in FY2024 (out of total Equity infusion of Rs 327 crore in FY2024; remaining was infused by the founders and Mr Avijit Saha"). Mr. Avijit Saha, who has more than 30 years of experience in rural and inclusive banking, is VFSPL's Managing Director & Chief Executive Officer (MD & CEO). The company's board consists of two nominee directors, representing the private equity, and three independent directors.

As of September 2024, VFSPL had 261 branches in 12 states/Union Territories, including Tamil Nadu, Karnataka, Maharashtra, Gujarat, Madhya Pradesh, Rajasthan, Odisha, Uttar Pradesh, Andhra Pradesh, Telangana, Haryana and Delhi.

Key financial indicators

Vistaar Financial Services Pvt Ltd	FY2023	FY2024	H1 FY2025
Total income	529.3	684.7	424.1
Profit after tax	100.0	147.1	94.1
Total managed assets[2]	3,566.6	4,631.7	5,159.6
Return on managed assets	3.1%	3.6%	3.8%
Managed gearing (times)	2.9	2.3	2.4
Gross Stage 3	3.8%	2.7%	2.7%
CRAR	26.4%	33.4%	31.1%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**30-Dec-24**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
NCD	Long term	205.00	[ICRA]A+ (Stable)	Aug 04, 2023	[ICRA]A (Positive)	Jun 17, 2022	[ICRA]A (Stable)	Jul 20, 2021	[ICRA]A- (Stable)
				Feb 07, 2024	[ICRA]A+ (Stable)	Nov 25, 2022	[ICRA]A (Stable)	-	-
				Mar 20, 2024	[ICRA]A+ (Stable)	-	-	-	-
Term loan	Long term	2,061.00	[ICRA]A+ (Stable)	Aug 04, 2023	[ICRA]A (Positive)	Jun 17, 2022	[ICRA]A (Stable)	Jul 20, 2021	[ICRA]A- (Stable)
				Feb 07, 2024	[ICRA]A+ (Stable)	Nov 25, 2022	[ICRA]A (Stable)	-	-
				Mar 20, 2024	[ICRA]A+ (Stable)	-	-	-	-
Overdraft	Short term	39.00	[ICRA]A1+	Aug 04, 2023	[ICRA]A1	Jun 17, 2022	[ICRA]A1	-	-
				Feb 07, 2024	[ICRA]A1+	Nov 25, 2022	[ICRA]A1	-	-
				Mar 20, 2024	[ICRA]A1+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple

[2] *Total managed assets = Total assets + Off-book AUM*

Long-term fund based – Term loan	Simple
Short-term fund based – Overdraft	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
INE016P07195	**Non-convertible debentures**	Mar-05-2024	9.75%	Mar-05-2027	75.00	[ICRA]A+ (Stable)
NA	**Non-convertible debentures (unallocated)**	-	-	-	130.00	[ICRA]A+ (Stable)
NA	**Long-term fund based – Term loan**	Jan-04-2019	-	Sep-30-2030	2,061.00	[ICRA]A+ (Stable)
NA	**Short-term fund based – Overdraft**	-	-	-	39.00	[ICRA]A1+

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 December 30, 2024 has been corrected with revision as follows

i) *Total equity infusion in FY2024 revised from Rs 335 crore to Rs. 327 crore on Page 1 & 2*
ii) *Equity infusion from Warburg Pincus LLC in FY2024 revised from Rs 328 crore to Rs 300 crore on Page 2 & 3*
iii) *"Total equity infused in FY2024 was Rs 327 crore of which Rs 300 crore was infused by Warburg Pincus LLC and remaining was infused by the founders and Mr Avijit Saha" included under '**About company section**' on Page 3*
iv) *AUM growth expectations over medium term revised to '25-30%' instead of '25%' under the paragraph '**Scale remains moderate, notwithstanding growth; regionally concentrated operations'** on Page 2*
v) *The number '10-20 lakhs' revised to 'up to 20 lakhs' in the first paragraph on Page 3*
vi) *'New To Credit' revised to 'New to business loan' in the first paragraph on Page 3.*

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