February 25, 2025

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

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 (Negative); reaffirmed and outlook revised to Negative from Stable
CP programme	60.00	60.00	[ICRA]A3+; reaffirmed
Long-term fund based – Term loan	114.60	114.60	[ICRA]BBB (Negative); reaffirmed and outlook revised to Negative from Stable
Short-term fund based – Term loan	25.00	25.00	[ICRA]A3+; reaffirmed
Total	**273.97**	**273.97**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the outlook to Negative factors in the weakening in the asset quality of Kinara Capital Private Limited (Kinara) in 9M FY2025 and the consequent deterioration in its earnings profile. The company has been observing higher stress in its assets under management (AUM) in recent quarters, with the 90+ days past due (dpd) increasing to 11.6% as on December 31, 2024 (4.6% as on March 31, 2024) from 3.3% as on March 31, 2023 and the 0+ dpd rising to 20.3% as on December 31, 2024 (10.7% as on March 31, 2024) from 6.3% as on March 31, 2023. Kinara increased the provision coverage on its stage 3 assets and made accelerated write-offs in 9M FY2025, leading to elevated credit costs. Further, first loss default guarantees (FLDG) on its partnership book were invoked, resulting in payouts of Rs. 121 crore during 9M FY2025 (about 10% of the partnership book as of March 2024). Consequently, it reported a loss of 4.7% (as a percentage of average managed assets; AMA) in 9M FY2025 compared to a net profit of 1.6% in FY2024 (net profit of 1.6% in FY2023). The company's earnings and loan quality performance are expected to remain subdued in the near term.

Given the above factors, Kinara's reported gearing and managed gearing[1] increased to 4.0 times and 5.9 times, respectively, in December 2024 from 3.0 and 4.5 times, respectively, in March 2024. The company had raised capital of Rs. 51 crore in the form of compulsorily convertible preference shares (CCPS) in Q3 FY2025 (classified as debt in its financials; if the same were treated as equity, the reported and managed gearing would have been 3.6 times and 5.4 times, respectively, as of December 2024). Given the near-term impact on earnings and the anticipated growth in the AUM, it will be crucial for Kinara to raise sufficient capital to improve its capital buffers.

The ratings consider Kinara's established track record in the micro, small, and medium enterprises (MSME) and small business lending segments. However, it is important to note that the company operates in a geographically concentrated manner, with the top 3 states accounting for 64% of the portfolio as on December 31, 2024 (down from 71% as on March 31, 2024). Kinara has strengthened its credit and portfolio monitoring as well as its collection infrastructure. As such, it slowed down its disbursements in 9M FY2025, which led to the AUM remaining stagnant (Rs. 3,223.4 crore as of December 2024 vis-à-vis Rs.

[1] Managed gearing = (On-book borrowings + Total off-book exposure)/Net worth(net of goodwill and inclusive of minority interest)

3,173.2 crore as of March 2024). ICRA notes that nearly 30% of the AUM as of December 2024 and March 2024 is backed by a credit guarantee cover, up from 11% in March 2023, which provides some comfort.

Key rating drivers and their description

Credit strengths

Track record of operations in MSME segment – 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. As of December 2024, Kinara had a presence in 6 states with 133 branches. The AUM is largely concentrated in the southern states with the top 4 states – Tamil Nadu, Karnataka, Andhra Pradesh and Maharashtra – accounting for around 78% of the AUM as on December 31, 2024. While its geographical concentration is expected to continue over the medium term, it is slowly increasing its product diversification, supported by the introduction of loan against property to cater to the requirements of its target segment. Kinara's AUM increased by 28% year-on-year (YoY) to Rs. 3,173 crore in FY2024, though it slowed down the pace of growth significantly in 9M FY2025 with the AUM standing at Rs. 3,223 crore as of December 2024. Within this, the off-balance sheet portfolio (includes partnership and assigned exposures) was 35%. ICRA notes that Kinara envisages to reach an AUM of ~Rs. 3,450 crore by March 2025.

The company has tightened its underwriting criteria and has added more guardrails on exposures to vulnerable sectors and geographies and is actively monitoring its borrower leverage. Further, it has taken steps to improve its collections processes by introducing new collection interventions, outsourcing harder bucket delinquencies to collection agencies, etc. These are expected to support Kinara's risk profile over the medium term.

Credit challenges

Asset quality under pressure – The gross stage 3 (GS3) assets had increased to 9.4% as on December 31, 2024 (5.6% as on March 31, 2024) from 5.6% as on March 31, 2023. The 0+ dpd stood at 20.3% as on December 31, 2024 (10.7% as on March 31, 2024) vis-à-vis 6.3% as on March 31, 2023. The company had also undertaken accelerated write-offs in 9M FY2025 (Rs. 132.9 crore of write-offs and loan losses), translating to 8.5% (annualised) of the on-book portfolio as of December 2024. These write-offs were on account of the stress observed in Kinara's exposures to certain sectors/geographies. Overall, the write-offs were Rs. 123.3 crore in FY2024 {3.9% of the AUM and 6.1% of gross carrying assets (GCA)} vis-à- vis Rs. 74.2 crore in FY2023 (3.0% of the AUM and 4.5% of GCA).

Kinara's gross non-performing assets[2] (GNPAs) and net non-performing assets (NNPAs) stood at 9.4% and 2.3%, respectively, as of December 2024. ICRA notes that about 30% of the company's portfolio, as on December 31, 2024, was covered under various guarantee schemes of Credit Guarantee Fund for Micro Units (CGMFU), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), etc. Adjusted for the portfolio covered under these schemes, the NNPA stood at -0.2%. The company received approximately Rs. 11.9 crore in 9M FY2025 compared to Rs. 10.6 crore in FY2024 under the guarantee schemes. It is expected to undertake the sale of its stressed/written-off book in the current quarter.

The company provides loans to small businesses for asset purchase and working capital requirements. The share of borrowers who are new to credit is currently around 8%. Further, Kinara largely operates in the unsecured lending segment, with the share of unsecured loans at around 82% as of December 2024 (87% as of March 2023). ICRA notes the inherent risk in the portfolio given the unsecured nature of the loans, the moderate credit profile of the borrowers and the modest seasoning of the loans due to the strong AUM growth.

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[2] *As per Income Recognition, Asset Classification and Provisioning (IRACP) norms*

Subdued profitability – Kinara reported a net loss of 4.6% (as a percentage of AMA) in 9M FY2025 compared to a net profit of 1.6% in FY2024 as well as FY2023. The decline was primarily due to the significant increase in credit costs to 9.3% (as a percentage of AMA) in 9M FY2025 from 4.8% in FY2024. Kinara faced elevated write-offs and loan losses of Rs. 132.9 crore in 9M FY2025, reflecting the stress on its portfolio. The company is focusing on strengthening its collection and recovery mechanisms. This, coupled with the slower AUM growth, resulted in an increase in the operating cost to 5.3% in 9M FY2025 from 4.7% in FY2024. ICRA notes that the company has taken steps to tighten its underwriting standards and expects the asset quality performance of the incrementally originated portfolio to be better. Notwithstanding the same, ICRA notes that Kinara's profitability shall remain subdued as it endeavours to control incremental slippages and tackle the residual asset quality stress.

Increasing leverage; critical to raise additional capital in the near term to maintain sufficient capital buffers – Kinara's leverage increased in 9M FY2025 with the reported gearing standing at 4.0 times and the managed gearing at 5.9 times (adjusted gearing[3] of 4.2 times) as of December 2024. Its net worth declined to Rs. 585.6 crore as of December 2024 (Rs. 736.4 crore as of March 2024) on account of the reported losses. ICRA notes that the company raised Rs. 51 crore in the form of CCPS (classified as debt/Tier-II capital) in Q3 FY2025, which has supported its capital-to-risk weighted assets ratio (CRAR) (27.0% as of December 2024). If the CCPS were to be treated as equity, the reported and managed gearing would have been 3.6 times and 5.4 times, respectively, as of December 2024. The company would need to raise additional capital in order to improve its capital buffers, in view of the increase in the leverage and the expected subdued earnings performance in the near term.

Liquidity position: Adequate

Kinara had unencumbered cash and liquid investments of Rs. 640.1 crore as on December 31, 2024. The company is also expected to have collections of Rs. 738.8 crore during January-June 2025. As such, its liquidity position shall be adequate for meeting the scheduled debt repayments (including interest) of Rs. 557.0 crore during January-June 2025.

Kinara's lender profile, as on December 31, 2024, comprised debentures including external commercial borrowings (ECBs) bonds from foreign portfolio investors (FPIs; 42% of the total borrowings), followed by non-banking financial companies (NBFCs)/financial institutions, term loans from banks, ECBs and alternative investment funds (AIFs) at 22%, 11%, 23% and 3%, respectively. ICRA notes that the company was in breach of financial covenants (pertaining to asset quality and profitability) on 79% of its total borrowings as of December 2024. It has received temporary relaxation on for the same from some of the lenders.

Rating sensitivities

Positive factors – The outlook would be revised to Stable on a sustainable improvement in the asset quality and earnings profile.

Negative factors – Pressure on the company's ratings could arise if there is further deterioration in its asset quality or earnings profile. Weakening of the capitalisation metrics would also exert pressure on the ratings.

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

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 the company

About the company

Kinara Capital Private Limited is a non-deposit taking NBFC, incorporated in 1996. The current promoters acquired the company in September 2011 and commenced lending operations in November 2011. It provides secured (hypothecation of machinery) and unsecured term loans as well as working capital facilities. 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, 2024, Kinara had 133 branches with AUM of Rs. 3,173 crore (Rs. 3,223 crore as on December 31, 2024).

Key financial indicators (audited)

Kinara Capital Private Limited	FY2023	FY2024	9M FY2025*
Total income	491.6	722.6	515.6
Profit after tax	41.2	62.2	-150.9
Total managed assets	3,435.0	4,305.9	4,347.6
Return on managed assets	1.6%	1.6%	-4.7%
Adjusted gearing (times)	2.8	3.4	4.2
Managed gearing (times)	3.7	4.5	5.9
Gross stage 3	5.6%	5.6%	9.4%
CRAR	32.0%	27.6%	27.0%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Assumed CCPS as debt; if CCPS is assumed as equity, managed gearing would be 5.4 times and adjusted gearing would be 3.8 times*

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							
				FY2025		FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Feb-25-2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Short-term term loan – Fund based	Short term	25.00	[ICRA]A3+	Sep-12-2024	[ICRA]A3+	Sep-15-2023	[ICRA]A3+	Jul-22-2022	[ICRA]A3+	Nov-09-2021	[ICRA]A3
				-	-	-	-	Sep-28-2022	[ICRA]A3+	-	-
Long-term term loan – Fund based	Long term	114.60	[ICRA]BBB (Negative)	Sep-12-2024	[ICRA]BBB (Stable)	Sep-15-2023	[ICRA]BBB (Positive)	Jul-22-2022	[ICRA]BBB (Stable)	Apr-19-2021	[ICRA]BBB- (Negative)
				-	-	-	-	Sep-28-2022	[ICRA]BBB (Stable)	Jul-06-2021	[ICRA]BBB- (Negative)
				-	-	-	-	-	-	Nov-09-2021	[ICRA]BBB- (Negative)
CP programme	Short term	60.00	[ICRA]A3+	Sep-12-2024	[ICRA]A3+	Sep-15-2023	[ICRA]A3+	Jul-22-2022	[ICRA]A3+	Apr-19-2021	[ICRA]A3
				-	-	-	-	Sep-28-2022	[ICRA]A3+	Jul-06-2021	[ICRA]A3
				-	-	-	-	-	-	Nov-09-2021	[ICRA]A3
NCD programme	Long term	74.37	[ICRA]BBB (Negative)	Sep-12-2024	[ICRA]BBB (Stable)	Sep-15-2023	[ICRA]BBB (Positive)	Jul-22-2022	[ICRA]BBB (Stable)	Apr-19-2021	[ICRA]BBB- (Negative)
						-	-	Sep-28-2022	[ICRA]BBB (Stable)	Jul-06-2021	[ICRA]BBB- (Negative)
						-	-	-	-	Nov-09-2021	[ICRA]BBB- (Negative)

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 (Negative)
Unallocated	**NCD programme**	NA	NA	NA	4.85	[ICRA]BBB (Negative)
Unallocated	**CP programme**	NA	NA	NA	60.00	[ICRA]A3+
-	**Long-term fund based – Term loan**	Jul 29, 2022 to Jun 30, 2023	NA	Feb 15, 2025 to Aug 31, 2025	22.24	[ICRA]BBB (Negative)
Unallocated	**Long-term fund based – Term loan**	NA	NA	NA	92.36	[ICRA]BBB (Negative)
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

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