June 18, 2025

Kinara Capital Private Limited: Ratings downgraded

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

**Instrument details are provided in Annexure I*

Rationale

The revision in the ratings factors in the significant deterioration in Kinara Capital Private Limited's (Kinara) capital profile and the weakening of its earnings profile on account of the stress witnessed in the asset quality in FY2025. The company has been observing higher stress in recent quarters, with the 90+ days past due (dpd) increasing to 7.4% as of March 2025 (11.6% as of December 2024) from 4.6% as of March 2024 and the 0+ dpd rising to 15.9% as of March 2025 (20.3% as of December 2024) from 10.7% as of March 2024. Kinara sold loans to an asset reconstruction company (ARC) and made accelerated write-offs in FY2025, leading to elevated credit costs. Further, first loss default guarantees (FLDG) on its partnership book were invoked in FY2025, resulting in payouts of Rs. 166 crore, and it incurred net reversal of Rs. 107.7 crore of income recognised on the transfer of the loan book. Consequently, it reported a loss of 8.8% (as a percentage of average managed assets; AMA) in FY2025 compared to a net profit of 1.6% in FY2024 (net profit of 1.6% in FY2023). ICRA notes that the company was in breach of financial covenants for ~91% of its total debt and has received temporary relaxation for only ~4% of the total debt as of March 2025. This impacts its financial flexibility and could affect liquidity, going forward, in case waivers are not received from lenders.

Given the above factors, Kinara's net worth declined in FY2025 and the reported and managed gearing[1] increased to 5.7 times and 8.4 times, respectively, in March 2025 (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 4.9 times and 7.3 times, respectively, as of March 2025). The Negative outlook reflects the near-term stress expected in the earnings and asset quality performance. Thus, it is crucial for Kinara to raise capital in a timely manner 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's operations are geographically concentrated with the top 3 states accounting for 63% of the assets under management (AUM) as of March 2025 (71% as of March 2024). Kinara has tightened its credit and portfolio monitoring and has augmented its collection infrastructure. As such, it slowed down its

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

disbursements in FY2025, which led to the AUM declining to Rs. 2,840 crore as of March 2025 (Rs. 3,223 crore as of December 2024) from Rs. 3,173 crore as of March 2024. ICRA notes that nearly 34% of the AUM, as of March 2025, is backed by a credit guarantee cover, up from 11% in March 2023, providing some comfort.

Key rating drivers and their description

Credit strengths

Experience in lending to MSME segment – Kinara has an established track record of around 13 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 March 2025, Kinara had a presence in 6 states with 80 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 of March 2025. While geographical concentration is expected to continue over the medium term, the company is slowly increasing its product diversification, supported by the introduction of other semi secured and secured products like loan against property to cater to the requirements of its target segment. In addition, Kinara is also expanding into new regions via strategic partnerships, extending the company's reach to a wider geography. Kinara's AUM declined by 10% in FY2025 to Rs. 2,840 crore as of March 2025 (Rs. 3,223 crore as of December 2024) from Rs. 3,173 crore as of March 2024. Within this, the off-balance sheet portfolio (includes partnership and direct assignment book) was 34%. In the near term, the company is likely to explore business correspondent partnerships for growth while its on-balance sheet portfolio will remain stagnant.

Kinara 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 collection processes by introducing new collection interventions, monitoring of early defaults etc. The incremental loan book created since April 2024 with the revised credit underwriting has performed relatively better. Hence, these changes are expected to support Kinara's risk profile over the medium term.

Credit challenges

Weak asset quality and earnings performance – The 90+ dpd increased to 7.4% as of March 2025 (11.6% as of December 2024) from 4.6% as of March 2024 while the 0+ dpd rose to 15.9% (20.3% as of December 2024) from 10.7% during this period. The company also sold stressed loans of Rs. 478 crore (including Rs. 202 crore of written-off loans) in Q4 FY2025 to an ARC. It had undertaken accelerated write-offs in FY2025 (Rs. 341 crore; including the loss on sale of loans to the ARC in Q4 FY2025), amounting to 12.0% of the AUM in FY2025 vis-à-vis 3.9% in FY2024 (3.0% in FY2023). Consequently, Kinara witnessed higher credit costs of 9.8% (as a percentage of AMA) in FY2025 vis-à-vis 4.8% in FY2024. Further, it incurred a net reversal of Rs. 107.7 crore of income recognised on the transfer of the portfolio (through co-lending/direct assignment routes), reflecting the stress on its sourced portfolio. The decline in the AUM, coupled with the company's focus on strengthening its collection and recovery mechanisms, resulted in an increase in the operating cost to 6.0% in FY2025 from 4.7% in FY2024. Kinara reported a net loss of 8.8% (as a percentage of AMA) in FY2025 compared to a net profit of 1.6% in FY2024 as well as FY2023. In the near term, the company is expected to cater to business correspondent services to support the profitability profile. Nevertheless, ICRA notes that Kinara's profitability shall remain subdued as it endeavours to control incremental slippages and tackles the residual asset quality stress.

ICRA notes that the company provides loans to small businesses for asset purchase and working capital requirements. The share of new-to-credit borrowers is currently around 8%. Further, Kinara largely operates in the unsecured lending segment, with the share of unsecured loans at around 82% as of March 2025 (87% as of March 2023). About 34% of the portfolio, as of March 2025, 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. The company received approximately Rs. 17.3 crore in

FY2025 compared to Rs. 10.6 crore in FY2024 under these schemes. Inherent risk exists 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 witnessed in the past.

Deterioration in capitalisation profile – Kinara's leverage increased in FY2025 with the reported gearing at 5.7 times and the managed gearing at 8.4 times (adjusted gearing[2] of 7.6 times) as of March 2025. Its net worth declined to Rs. 374 crore as of March 2025 (Rs. 585.6 crore as of December 2024) from 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; 22.3% as of March 2025) to some extent. If the CCPS were to be treated as equity, the reported and managed gearing would have been 4.9 times and 7.3 times, respectively, as of March 2025. The company is in the process of raising capital to enhance its capital buffers. However, ICRA notes that the same is required in a timely manner given the subdued earnings performance expected in the near term.

Scope to improve funding profile and resource mobilisation – As of March 2025, Kinara's lender profile comprised debentures (37% of the total borrowings), followed by term loans from non-banking financial companies (NBFCs)/financial institutions and banks at 54% and 9%, respectively. ICRA notes that the company was in breach of financial covenants for ~91% of its total debt and has received temporary relaxation for only ~4% of the total debt as of March 2025. This has impacted its financial flexibility and could affect its liquidity, going forward, in case waivers are not received from lenders. The company had raised debt of Rs. 708 crore in FY2025 (Rs. 30 crore in Q4 FY2025) vis-à-vis Rs. 1,069 crore in FY2024. Kinara's ability to retain the existing lenders and raise incremental debt for refinancing would be a key monitorable.

Liquidity position: Adequate

Kinara had unencumbered cash and liquid investments of Rs. 168 crore as of May 2025. The company also has scheduled collections of Rs. 1,040.0 crore during June-November 2025. As such, its liquidity position shall be adequate for meeting the scheduled debt repayments (including interest) of Rs. 461.0 crore during June-November 2025. The asset liability management profile, as of March 2025, had no negative cumulative mismatches up to the one-year bucket.

Securing waivers from lenders for the breaches in the loan covenants shall be crucial to mitigate the risk of early repayment of debt vis-à-vis contractual maturities. This is key from a liquidity perspective and to improve access to lower cost funds.

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 in case its liquidity profile is impacted by a delay or inability to obtain waivers from its lenders for the covenant breaches or in case of a delay in strengthening its capital buffers. Continued pressure on the asset quality or earnings profile would also negatively impact the ratings.

[2] *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 of March 2025, Kinara had 80 branches with AUM of Rs. 2,840 crore (Rs. 3,223 crore as of December 2024).

Key financial indicators (audited)

Kinara Capital Private Limited	FY2024	FY2025*
Total income	723	585
Profit after tax	62	-351
Total managed assets	4,306	3,701
Return on managed assets	1.6%	-8.8%
Adjusted gearing (times)	3.4	7.6
Managed gearing (times)	4.5	8.4
Gross stage 3	5.6%	7.4%
CRAR	27.6%	22.3%

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

**Assumed CCPS as debt – if it is assumed as equity, adjusted gearing would have been 6.3 times and managed gearing would have been 7.3 times*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
	Type	Amount rated (Rs. crore)	Jun-18-2025	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+
			-	Feb-25-2025	[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)
			-	Feb-25-2025	[ICRA]BBB (Negative)	-	-	Sep-28-2022	[ICRA]BBB (Stable)
CP programme	Short term	60.00	[ICRA]A3	Sep-12-2024	[ICRA]A3+	Sep-15-2023	[ICRA]A3+	Jul-22-2022	[ICRA]A3+
			-	Feb-25-2025	[ICRA]A3+	-	-	Sep-28-2022	[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)
				Feb-25-2025	[ICRA]BBB (Negative)	-	-	Sep-28-2022	[ICRA]BBB (Stable)

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	Jul 29, 2025 to Aug 31, 2025	9.37	[ICRA]BBB- (Negative)
Unallocated	**Long-term fund based – Term loan**	NA	NA	NA	105.23	[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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