

August 01, 2025<sup>(Revised)</sup>

## 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]C; downgraded from [ICRA]BBB-(Negative)
CP programme	60.00	60.00	[ICRA]A4; downgraded from [ICRA]A3
Long-term fund-based term loan	114.60	114.60	[ICRA]C; downgraded from [ICRA]BBB-(Negative)
Short-term fund-based term loan	25.00	25.00	[ICRA]A4; downgraded from [ICRA]A3
<b>Total</b>	<b>273.97</b>	<b>273.97</b>	

\*Instrument details are provided in Annexure I

### Rationale

The revision in the ratings factors in the severe deterioration in liquidity profile faced by Kinara Capital Private Limited's (Kinara) post the loan set-off against its bank balances and appropriation of lien marked fixed deposits by some lenders and, the requests from other lenders for early redemptions of their loans. As on date, two lenders have set off about Rs. 81 crore from bank balances and encumbered fixed deposits against a portion of the borrowings outstanding, while recall notices to the extent of Rs. 66 crore have been issued. Some lenders have triggered event of default while issuing the loan recall notices. The free cash with the company has significantly been impacted due the lenders actions and it moderated to Rs. 70 crore as of July 31, 2025 from Rs. 98 crore on June 30, 2025. This action by a few lenders could lead the other lenders to also trigger early redemption, which will significantly impact its liquidity profile in the near term. Kinara at present is contemplating various options including sale of assets and corresponding transfer of liabilities. ICRA notes that these above events significantly impair Kinara's financial flexibility to continue its normal operations and presents it with heightened risk of disruptions in its loan collections and in its debt servicing, as per existing loan terms. As of June 2025, the company had a total debt of Rs. 1,853 crore from 46 lenders.

The company was in breach of financial covenants for ~91% of its total debt as of March 2025 against which it received temporary relaxation for only ~4% of the total debt. Consequently, it has not been able to raise incremental funds in recent months and has been solely dependent on collections from the loan book to meet its debt repayment obligations. Further, it has paused incremental loan disbursements since April 2025, given the limited funding availability. Kinara has, therefore, been incrementally lien-marking portions of its cash and bank balances, in line with lender requirements, as it remained short of other loan receivables to offer as collateral for its borrowings. Such encumbered cash deposits stood at Rs. 296 crore as on July 20, 2025 from Rs. 202 crore as on June 09, 2025.

Kinara's net worth declined in FY2025 due to elevated losses and the reported and managed gearing<sup>1</sup> 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

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

shares (CCPS) in Q3 FY2025 (classified as debt in its financials; if the same is 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).

Kinara has been witnessing significant stress in its asset quality over the past 18 months. The 90+ days past due (dpd) delinquencies 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% as of March 2025 (20.3% as of December 2024) from 10.7% as of March 2024. 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 also takes note of the resignations of multiple directors from the board of the company over the last six months. Currently, it doesn't not have any independent directors on its board.

## Key rating drivers and their description

### Credit strengths – Not applicable

### Credit challenges

**Severe deterioration in liquidity profile** – As of June 2025, Kinara had borrowings of Rs. 1853 crore and total on-book loans of Rs. 1406 crore. The company was faced with a steady reduction in its loan book for the last few quarters, which along with its weakening asset quality and limited funding availability resulted in it lien-marking portions of its cash and bank balances for its borrowings. While Kinara was expected to meet its near-term debt obligations from loan collections; debt set-off against its bank balances and appropriation of lien marked fixed deposits by some lenders and, the requests from other lenders for early redemptions of their loans has resulted in a significant deterioration in its liquidity profile. This action by a few lenders could lead the other lenders to also trigger early redemption, which further accentuates this risk.

**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<sup>2</sup> of 7.6 times) as of March 2025. Its net worth declined to Rs. 373.9 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.

**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. Kinara also sold stressed loans of Rs. 478 crore (including Rs. 202 crore of written-off loans) in Q4 FY2025 to an asset reconstruction company (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 in 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. ICRA notes that Kinara's profitability shall remain subdued as it endeavours to control incremental slippages and tackles the residual asset quality stress and as loan book continues to decline.

<sup>2</sup> Adjusted gearing = (On-book borrowing) / (Net worth – First loss given default extended for partnership exposure)

ICRA notes that the company provides loans to small businesses for asset purchase and working capital requirements. Inherent risk exists in the portfolio given the unsecured nature of the loans, the moderate credit profile of the borrowers

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.

### Liquidity position: Poor

A major portion of Kinara's cash and bank balance (Rs. 296 crore as on July 20, 2025) is encumbered to the lenders as it remains short of eligible receivables to offer as collateral for these loans. This constrains its ability to manage its loan book growth. Loan set-off by some lenders, recall from a few others and invocation of event of default clause significantly impairs Kinara's financial flexibility to continue its normal operations and presents it with heightened risk of disruptions in its loan collections and in its debt servicing, as per existing loan terms.

### Rating sensitivities

**Positive factors** – Sustainable improvement in the liquidity and capital profile.

**Negative factors** – Further deterioration in the liquidity profile would negatively 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 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

\* CCPS considered to be debt; if it is assumed to be 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					
	Type	Amount rated (Rs. crore)	FY2026			FY2025		FY2024		FY2023	
			Aug-01-2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Short-term term loan – Fund based	Short term	25.00	[ICRA]A4	Jun-18-2025	[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]C	Jun-18-2025	[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]A4	Jun-18-2025	[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]C	Jun-18-2025	[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]C
Unallocated	NCD programme	NA	NA	NA	4.85	[ICRA]C
Unallocated	CP programme	NA	NA	NA	60.00	[ICRA]A4
-	Long-term fund-based term loan	Jul 29, 2022 to Jun 30, 2023	NA	Jul 29, 2025 to Aug 31, 2025	9.37	[ICRA]C
Unallocated	Long-term fund-based term loan	NA	NA	NA	105.23	[ICRA]C
Unallocated	Short-term fund-based term loan	NA	NA	NA	25.00	[ICRA]A4

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 August 01, 2025 has been corrected with the revision as detailed below:

Erroneous mention regarding the outlook on the rating has been removed from the rationale section in page 2.

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