September 28, 2022

# Visage Holdings & Finance 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** | 36.37 | 36.37 | [ICRA]BBB (Stable); Reaffirmed |
| **NCD programme** | - | 70.00 | [ICRA]BBB (Stable); Assigned |
| **CP programme** | 60.00 | 60.00 | [ICRA]A3+; Reaffirmed |
| **Long-term fund based – Term loan** | 25.00 | 114.60 | [ICRA]BBB (Stable); Reaffirmed/ Assigned for enhanced amount |
| **Short-term fund based – Term loan** | 25.00 | 25.00 | [ICRA]A3+; Reaffirmed |
| **Total** | **146.37** | **305.97** | |

**Instrument details are provided in Annexure I*

## Rationale

The rating action factors in Visage Holdings & Finance Pvt. Ltd.'s (Kinara) strengthened capital profile and improved scale of operations. The company received a fresh equity infusion of Rs. 208.1 crore in April 2022, which strengthened its capital profile with the net worth increasing to Rs. 450.24 crore in June 2022 from Rs. 245.3 crore in March 2022 (Rs. 230.8 crore in March 2021). Recently, the company has also closed another tranche of equity infusion of about Rs 197 crores in September 2022, which will further strengthen its capital profile. The adjusted gearing[1] stood at 5.3 times as of March 2022 and is expected to further reduce by September 2022. In FY2022, the assets under management (AUM) scaled up by 40% year-on-year (YoY) and is expected to increase at a compound annual growth rate (CAGR) of about 55-60% during FY2023-FY2025.

Kinara's asset quality exhibited improvement with the 0+ days past due [2](dpd) reducing to 11.6% as of June 30,2022 (9.8% as of March 31, 2022) from the peak of 22.4% as of June 2021 and the 90+dpd improving to 4.6% as of June 30,2022 (4.7% as of March 31, 2022) from the peak of 9.3% as of August 31, 2021. With the improvement in the collection efficiency, the write-offs were lower at Rs. 31.2 crore in FY2022 (2.9% of the AAUM[3]) vis-à-vis Rs. 43.4 crore in FY2021 (4.9% of the AAUM). The write offs were at Rs 16.9 crore in Q1FY23 as against the write offs of Rs 31.2 crore in FY2022; write-offs in remaining quarters of the FY2023 is expected to moderate, keeping the overall credit costs under control. The standard restructured portfolio stood at 4.5% of the gross on-book exposure as of March 31, 2022. The ratings take note of the CGTMSE[4] cover available for the company's portfolio and recoveries in FY2022. However, the tightening of the stipulations for attaching a portfolio under the scheme resulted in a decline in the share of the portfolio covered under the scheme.

Notwithstanding the portfolio scale-up in FY2022, Kinara's scale remains moderate with an AUM of Rs 1,435.3 crore as of June 30, 2022 (Rs. 1,267.8 crore as of March 31, 2022) vis-à-vis Rs. 903.2 crore as on March 31, 2021 (Rs. 853.4 crore in March 2020). The ratings take cognisance of the company's geographically concentrated operations with the top 3 states accounting for 74% of the portfolio as of June 30,2022 (73% as of March 31, 2021). The net profitability {profit after tax (PAT)/average managed assets (AMA)} remains modest at 0.4% in Q1 FY2023 vis-a-vis 1.0% in FY2022 (0.6% in FY2021). ICRA notes that the company had breached some financial covenants with its lenders as of March 31, 2022 and had received temporary relaxation from most of them.

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*[1] Adjusted gearing = (on-book borrowing) / (Net worth – First loss given default extended for co-lending exposure)*

*[2] Dpd numbers are reported net of CGTMSE claims received, the 90+dpd, gross of CGTMSE claims, was 5.4% as of March 2022*

*[3] Average assets under management*

*[4] CGTMSE – Credit Guarantee Fund Trust for Micro and Small Enterprises*

The Stable outlook factors in the augmented capital profile of Kinara, which would support near-term growth, and the improvement witnessed in the asset quality in the past few quarters.

## Key rating drivers and their description

### Credit strengths

**Good growth potential and experienced management team; target segment is risky** – Kinara provides loans to small businesses for asset purchase and working capital requirements. It offers short and medium-term loans with tenures of 6 months to 48 months and ticket sizes in the range of Rs. 50,000 to Rs. 30 lakh. The company's borrowers are usually traders (55% in March 2022) and small manufacturers (43%), a largely underserved and unserved segment, thus offering good growth potential. Over the years, the share of unsecured loans increased to 84.5% in Q1FY23 (80.5% in FY2022) from 67.5% in FY2021 (57.3% in FY2020). However, Kinara has tightened the credit norms and digitalised the credit appraisal process, thereby restricting manual intervention.

Kinara has an experienced management team with adequate domain knowledge, which enables it to frame and develop robust lending and monitoring systems that are crucial to support the growth of its AUM, given the borrower profile. The company has automated its workflow process, limiting manual intervention, which has improved its turnaround time and efficiency. The data-science-backed credit automation has tightened the credit norms, thereby increasing the rejection rates as well as the share of higher-ticket loans (more than Rs. 5 lakh) to 76% in Q1FY23 (72% in FY2022) from 61% in FY2021 (39% in FY2020).

**Strengthened capital profile** – The company secured an equity infusion of Rs. 208.1 crore in April 2022, which strengthened its capital profile. Accordingly, the net worth improved to Rs. 450.24 crore as of June 2022 from Rs. 245.3 crore as of March 2022 (Rs. 230.8 crore as of March 2021). The company has also closed another tranche of equity infusion of about Rs 197 crores in September 2022, which will further strengthen its capital profile. The capital-to-risk weighted assets ratio (CRAR) increased to 33.7% as of June 2022 (36.7% as of May 2022) from 18.5% as on March 31, 2022 (29.2% as of March 31, 2021). The adjusted gearing increased to 5.3 times (managed gearing[5] 5.9 times) as of March 31, 2022 from 3.7 times (managed gearing 4.0 times) as of March 31, 2021. With the sizable capital infusion in H1FY2023, the adjusted gearing is expected to have reduced by Sep 2022. Going forward, the company plans to maintain its adjusted gearing at around 3 times, which would necessitate further capital infusion over the medium term.

**Improvement in asset quality from peak overdues witnessed in H1 FY2022; sustained performance remains to be seen** – Kinara's asset quality had been under pressure because of the impact of the pandemic on the income profile of its borrowers. The 0+dpd had peaked to 22.4% (Rs. 197.0 crore) as of June 2021 and with higher slippages, the 90+dpd had reached 9.3% (Rs. 82.6 crore) as of August 30, 2021. However, the focused collection and recovery mechanism, driven by early warning signals and algorithm-based collection prioritisation, enabled Kinara to moderate its delinquencies, thereby reporting a 0+dpd of 11.6% and 90+dpd of 4.6% as of June 30, 2022 (9.8% and 4.7% respectively as of March 31, 2022). The company's reported gross stage 3 (GS3) assets moderated to 7.9% as of June 20, 2022 (8.6% as of March 31, 2022) from 10.4% as of March 31, 2021 (12.3% as of September 2021). Adjusting for the portfolio covered by the CGTMSE scheme and the Emergency Credit Line Guarantee Scheme (ECLGS), the net non-performing advances (NPAs) stood at 1.4% as of March 2022 (1.2% as of March 2021). With the improvement in the collection efficiency, the standard restructured portfolio increased to 2.75% of the gross on-book exposure as of June 30,2022 (4.5% as of March 31, 2022) from 2.3% as of March 31, 2021.

ICRA notes that the company has taken cover under CGTMSE and around 35% of its portfolio as of March 31, 2022 is covered under it. Further, Kinara had extended loans under the ECLGS scheme in the last fiscal, which accounted for about 3% of the portfolio as of March 31, 2022. The benefits of CGTMSE were visible in FY2022 and the company was able to recover Rs. 16.3 crore of claims during this period. However, access to this scheme remains to be seen, considering the interest rate cap of 18% for loans incrementally to be covered by this scheme and the claims payout cap. A favourable development in this regard will

[5] *Managed gearing = (on-book borrowings + total off-book exposure) / Net worth*

support the risk profile. The portfolio covered under CGTMSE declined to 35% as of March 31, 2022 from 63% as of September 30, 2021 due to the inability to attach the incremental portfolio, following the interest cap stipulation, and the rundown in the attached portfolio.

## Credit challenges

**Moderate scale, though company has steep growth plans** – Kinara's portfolio increased by 40% YoY in FY2022 and further by 13% in Q1 FY2023 as disbursements gained momentum from H2 FY2022 onwards. Nonetheless, its scale remains moderate with an AUM of Rs 1,435.3 crore as of June 30, 2022(Rs. 1,267.8 crore as of March 31, 2022) vis-à-vis Rs. 903.2 crore as on March 31, 2021 (Rs. 853.4 crore in March 2020).

The company has a presence in 6 states with 121 branches. In view of the current scale, Kinara's portfolio remains largely concentrated in Tamil Nadu (35%), Karnataka (19%), Andhra Pradesh (20%) and Maharashtra (14%) as on June 30, 2022. The top 3 states accounted for 74% of the portfolio as of June 30, 2022 (73% as of March 31, 2021), exposing it to concentration-related risks.

Kinara is targeting to double its AUM to ~Rs. 2,400-2,500 crore by March 2023 and achieve AUM in the range of Rs. 4,500 to Rs. 5,000 crore by March 2025. It expects to diversify its product base by offering loan against property and short-term loan products, namely bill discounting and other working capital facilities, to its target borrower segment.

**Subdued profitability; expected to improve with envisaged portfolio scale-up** – Kinara's net profitability (PAT/AMA) improved to 1.0% in FY2022 from 0.6% in FY2021, largely supported by the upfront recognition of a net gain on servicing assets[6] that accounted for 21.4% (Rs. 61.2 crore) of the total income in FY2022. However, the net profitability in Q1 FY2023 was subdued owing to higher credit & provision costs. ICRA expects the credit costs to be normalised over the remaining quarters of FY2023, aiding in maintaining the profitability largely in line with ICRA's expectations. Kinara has established last mile distribution with a digital process enabler and auto disbursements, thereby reducing the lead time to 1-2 days from 7-8 days earlier. The collection and recovery mechanisms are strengthened by ensuring last mile people-based collections, driven by data-science-based early warning signals and collections priority algorithms. As such, the credit cost moderated to 2.6% in FY2022 from 3.5% in FY2021. There is an increase in the credit cost in Q1FY23 to 4.4% owing write offs recognised from non performing accounts. Increased collection efforts and other initiatives to augment the information technology (IT) system and internal management information system (MIS) led to the operating expense ratio (operating expenses/AMA) remaining stable at 7.2% in Q1FY2023 and 7.3% FY2022 (7.1% in FY2021), even as the AUM expanded significantly. The increase in operating cost was due to the opening up of new branches and increase in employee salary.

While the profitability remained modest as of FY2022, the envisaged portfolio scale-up and increased productivity, backed by technological upgradations undertaken in the past, are expected to improve the profitability in the near term. Kinara's ability to keep its credit cost and operating efficiency under control, as the company envisages a sizeable scale-up, would be crucial for incremental profitability.

## Liquidity position: Adequate

Kinara had unencumbered cash and liquid investments of ~Rs. 297 crore as of August 31, 2022 (Rs. 313 crore as of March 31, 2022). Its debt repayments (including interest) during Sept-22-Feb-23 amounts to ~Rs. 300 crore. The company recorded average monthly collections (including overdue collections and excluding prepayments and foreclosures) of Rs. 48 crore during October 2021 to March 2022. Besides this, the Rs. 208 crore-capital infusion in April 2022 and Rs. 197 crore capital infusion expected in September 2022, is likely to support Kinara's liquidity profile.

Kinara's lender profile, as on March 31, 2022, comprised debentures from foreign portfolio investors (FPIs; 40% of the total borrowings), followed by non-banking financial companies (NBFCs)/financial institutions, term loans from banks, external

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[6] *Kinara has recognised an asset for future receivables on the servicing of the co-lending book; consequently, gains for this are recognised upfront in the Profit and Loss Account*

commercial borrowings (ECBs) and alternative investment funds (AIFs) at 35%, 12%, 6% and 6%, respectively. ICRA notes that the company was in breach of some financial covenants with its lenders (2% of the total borrowings as of March 2022 and 3% of the total borrowings as of March 2021) and has received temporary relaxation with lenders not demanding repayment of the same.

## Rating sensitivities

**Positive factors –** ICRA could upgrade the ratings if the company continues to report a healthy growth in its scale of operations along with an improvement in its profitability indicators on a sustained basis over the medium term.

**Negative factors –** Pressure on the company's ratings could arise if there is a deterioration in the asset quality. Continued pressure on the earnings profile and the weakening of the capitalisation profile (adjusted gearing exceeding 4 times on a sustained basis) would exert pressure on the ratings.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | ICRA's Credit 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

Visage Holdings & Finance Pvt. Ltd. is a non-deposit taking NBFC, incorporated in 1996. The current promoters acquired Kinara in September 2011 and commenced lending operations in November 2011. The company offers credit facilities to small businesses under the brand name Kinara Capital. It provides secured (hypothecation of machinery) and unsecured term loans and working capital facilities with a maximum ticket size of Rs. 30 lakh. 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 June 30, 2022, Kinara had 121 branches with an AUM of Rs. 1,435.3 crore.

### Key financial indicators (audited)

| Visage Holdings & Finance Private Limited | FY2020 | FY2021 | FY2022 |
|---|---|---|---|
| **Total income** | 223.7 | 233.0 | 285.9 |
| **Profit after tax** | 18.1 | 7.5 | 14.6 |
| **Net worth** | 200.8 | 230.8 | 245.3 |
| **Managed loan book** | 884.4 | 957.8 | 1,327.1 |
| **Total managed assets** | 1,069.7 | 1,237.7 | 1,799.1 |
| **Return on managed assets** | 1.8% | 0.6% | 1.0% |
| **Return on net worth** | 9.9% | 3.5% | 6.1% |
| **Adjusted gearing (times)** | 3.7 | 3.7 | 5.3 |
| **Gross stage 3** | 6.1% | 10.4%* | 8.6% |
| **Net stage 3** | 3.6% | 8.2%*# | 5.9%# |
| **Solvency (Net stage 3/Net worth)** | 14.7% | 30.2%* | 23.7% |
| **CRAR** | 28.8% | 29.2% | 18.5% |

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

*Gross NPA, net NPA and Net NPA/Net worth as per RBI reporting stands at 5.4%, 3.4% and 13.1%, respectively, as on March 31, 2021*

# *As of March 31, 2022, the company reported gross stage 3 as NPA. Net NPA, adjusted for the portfolio covered by CGTMSE and ECLGS, stood at 1.4% as on March 31, 2022 and 1.2% as of March 31, 2021*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

| | Instrument | Current rating (FY2023) | | | | | Chronology of rating history for the past 3 years | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding (Rs. crore) | Date & rating in FY2023 | | Date & rating in FY2022 | | Date & rating in FY2021 | | | Date & rating in FY2020 |
| | | | | | Sept 28, 2022 | Jul 22, 2022 | Nov 09, 2021 | Jul 06, 2021 Apr 19, 2021 | Oct 28, 2020 Sep 16, 2020 | Sep 07, 2020 | May 18, 2020 | Feb 14, 2020 |
| 1 | NCD programme | Long term | 36.37 | 36.37* | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB- (Negative) | [ICRA]BBB- (Negative) | [ICRA]BBB- (Negative) | [ICRA]BBB- (Negative) | [ICRA]BBB- (Stable) | [ICRA]BBB- (Stable) |
| 2 | NCD programme | Long term | 70.00 | 70.00* | [ICRA]BBB (Stable) | - | - | - | - | - | - | - |
| 3 | CP programme | Short term | 60.00 | 60.00* | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3 | [ICRA]A3 | [ICRA]A3 | - | - | - |
| 4 | Term loan | Long term | 114.60 | 114.60* | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB- (Negative) | [ICRA]BBB- (Negative) | [ICRA]BBB- (Negative) | [ICRA]BBB- (Negative) | [ICRA]BBB- (Stable) | [ICRA]BBB- (Stable) |
| 5 | Term loan | Short term | 25.00 | 25.00* | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3 | - | - | - | - | - |

**Includes unallocated limits of Rs. 4.85 crore, Rs. 60 crore and Rs. 4.60 crore towards NCD programme, CP programme and short-term loans, respectively*

### 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: www.icra.in

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| INE200W07290 | NCD programme | Sept 07, 2020 | 11.75% | Mar 07,2028 | 69.52 | [ICRA]BBB (Stable) |
| INE200W07183 | NCD programme | May 25, 2018 | 12.60% | Dec 24, 2024 | 32.00 | [ICRA]BBB (Stable) |
| - | NCD programme (unallocated) | NA | NA | NA | 4.85 | [ICRA]BBB (Stable) |
| - | CP programme (unallocated) | NA | NA | NA | 60.00 | [ICRA]A3+ |
| - | Long-term fund based – Term loan 1 | July 28, 2022 | NA | July 29, 2025 | 50.00 | [ICRA]BBB (Stable) |
| | Long-term fund based – Term loan 2 | July 27, 2022 | NA | February 09, 2025 | 15.00 | [ICRA]BBB (Stable) |
| | Long-term fund based – Term loan 3 | August 29, 2022 | NA | August 30, 2025 | 20.00 | [ICRA]BBB (Stable) |
| | Long-term fund based – Term loan 4 | March 29, 2022 | NA | March 31, 2024 | 5.00 | [ICRA]BBB (Stable) |
| | Long-term fund based – Term loan 5 | April 13, 2022 | NA | April 21, 2024 | 10.00 | [ICRA]BBB (Stable) |
| | Long-term fund based – Term loan 6 | June 06, 2022 | NA | June 30, 2024 | 10.00 | [ICRA]BBB (Stable) |
| | Long-term fund based – Term loan (unallocated) | NA | NA | NA | 4.60 | [ICRA]BBB (Stable) |
| - | Short-term fund based – Term loan (unallocated) | NA | 7.75% | Sep 10, 2022 | 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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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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## ICRA Limited

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### Branches