

July 17, 2017

Vistaar Financial Services Private Limited

Summary of rated instruments

Instruments*	Rated Amount (in Rs. crore)	Rating Action
Non Convertible Debenture Programme	314.95	[ICRA]A- (Stable); reaffirmed
Bank Facilities	1,003.87	[ICRA]A- (Stable); reaffirmed
Non Convertible Debenture Programme	21.30	[ICRA]A- (Stable); withdrawn
Total	1,318.82	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long term rating of [ICRA]A- (pronounced ICRA A minus)¹ to the Rs.314.95 crore² (reduced from Rs.318.70 crore) non-convertible debenture (NCD) programme and the Rs.1,003.87 crore long term bank facilities of Vistaar Financial Services Private Limited (VFSPL / the company). The outlook on the long term rating is stable.

ICRA has withdrawn the [ICRA]A- (stable) rating on the Rs.21.30 crore non-convertible debenture programme at the request of and confirmation from the company that no debentures have been issued against the rated instrument and there is no amount outstanding.

Rationale

The rating reaffirmation takes into consideration VFSPL's reasonable track record of operations, the experience of the senior management team in the retail lending business; the company's prudent lending policies, and its efficient internal control systems. The company has a comfortable capitalization (gearing at 1.3x as on March 31, 2017), adequate liquidity profile (funding lines from more than 30 lenders) and good net profitability (RoA³ at 2.9% for FY2017 and 3.2% for FY2016). The rating also takes into account the growth potential in VFSPL's target segment of small business loans in rural and semi-urban areas; however, the credit challenges on account of the modest credit profile of its target borrowers will persist. ICRA takes note of the impact of demonetization resulting in increase in delinquencies as reflected by 90+ dpd⁴ at 3.9% as on May 31, 2017 – up from 3.3% as on March 31, 2017 and 2.4% as on March 31, 2016. ICRA takes cognizance of the management's efforts towards recoveries and its conservative provisioning policies. ICRA also takes note of the initiatives taken by the company to slowly phase out the small business hypothecation loans (SBHL) and steadily reduce exposures to agri & allied segments, which provides comfort from an asset quality perspective going forward.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

³ Return on total assets

⁴ Days past dues

The company's operations are spread across 12 states at present; however, it continues to remain dependent on top three states which together accounted for about 74% of its portfolio as on March 31, 2017 exposing the company to risks related to geographical concentration. Going forward, the company's ability to sustain profitability in the backdrop of pricing pressure from increasing competition from new players and small finance banks (SFBs) and to maintain comfortable asset quality indicators would remain key rating monitorables. VFSPL would have to further diversify its funding sources to secure funding at more competitive rates and also improve the diversity of its earnings.

Key rating drivers

Credit strengths

- Experience of the promoters and management in the financial services industry; their understanding of the target customer segment
- Focus on small business loans in the rural and semi urban areas; these loans have higher yields and potential for increase in scale of operations
- Internal control and monitoring systems are adequate in relation to the envisaged business growth
- Comfortable capitalization; adequate equity to fund envisaged business growth over medium term without adversely affecting the capital structure
- Good profitability indicators

Credit challenges

- Vulnerability to geographic and product concentration risks
- Exposure to borrowers in rural and semi urban markets, with an average credit profile and susceptibility to income shocks
- Limited seasoning, considering the steep portfolio growth and geographical diversification by VFSPL; overall delinquencies continue to be at manageable levels notwithstanding the increase over the recent past
- Ability to recruit, train and retain employees critical to support the proposed expansion, especially given the high field level attrition rates currently
- Improvement in operating efficiencies would be crucial for incremental profitability
- Scope for further diversification in the funding profile

Description of key rating drivers

VFSPL reported steep growth in portfolio, reporting a CAGR of 78%, during the period between FY2013 and FY2017. This was primarily supported by robust expansion in VFSPL's branch network and deeper penetration in existing areas. While the growth was strong at a CAGR of 97% over the period FY2013 to FY2016, it moderated to 33% in FY2017. Though higher base over the last two years has influenced the portfolio growth metric, the company's growth during FY2017 has been impacted by subdued disbursements during H2 FY2017 following demonetization. Further, with reduced focus on SBHL product category, the portfolio mix of VFSPL has skewed towards SBML which accounts for 86% of its total portfolio at present. Going forward, with the management's intention to slowly phase out SBHL category, the company's portfolio would be predominantly SBML loans over the medium term.

From having operations in three states during FY2013, the company has expanded its geographical presence over the years to 12 states. While this has resulted in geographical diversity, the top three states continue to account for 74% of its total portfolio – thereby exposing it to concentration related risks. At present, VFSPL's portfolio is primarily concentrated on Tamil Nadu, Karnataka and Madhya Pradesh – each accounting for 37%, 19% and 18% respectively. While the company has outlined branch expansion plans over the next three years at a run rate of about 10-15 branches per annum, the company intends to

deepen presence in existing geographies. Going forward, with the company concentrating on increasing penetration in recently entered states, its dependence on top three states is therefore likely to reduce going forward.

VFSPL's asset quality was impacted post demonetization with drop in collection efficiency from about 95% during the period April 2016-Sep 2016 to about 92% in November 2016 – March 2017; the company is witnessing some stress in specific regions such as Maharashtra (8.7% of the portfolio as on March 31, 2017) and Gujarat (4.9% of the portfolio as on March 31, 2017) where its 90+ dpd stood at 12.1% and 12.5% respectively as on March 31, 2017. In terms of overall asset quality, the 90+ dpd has increased to 3.9% as at the end of May 2017 and is expected to increase further over the next few months. In a bid to address the same, the company has strengthened the state leadership in the aforementioned states with experienced personnels. Further, in addition to the regular collection team, the company also redirected the business team towards collections with a view to drive collection efficiency.

Going forward, VFSPL envisages a slower growth of about 35% on an average over the next three years (as against the planned 40-45% previously). The said moderation in planned growth is likely to have a positive impact on VFSPL's operating efficiency in the near to medium term, as it is expected to increase penetration in the existing geographies, and incremental branch additions are likely to happen at a slower pace than in the past. The company's cost to income ratio improved to 58.6% in FY2017 from 67.1% in FY2016, however higher credit and provision cost of 3.0% for FY2017 vis a vis 1.1% in FY2016 resulted in a marginal reduction in the net profitability to 2.9% for FY2017 as compared with 3.2% in the previous fiscal.

The capitalization profile is comfortable with gearing at 1.3 times as on March 31, 2017. Considering the envisaged portfolio growth CAGR of about 31% over the period FY2018-FY2020 and internal generation of about 9-11%; VFSPL may not require any additional capital for maintaining the gearing at 4.0-5.0 times, over the above mentioned time horizon. At present, the company's funding profile is a mix of borrowings from banks (42.0%), NBFCs (12.7%) and debentures (44.6%). Going forward, VFSPL would have to further diversify its funding sources to secure funding at competitive rates.

Disclosure: A Member of the Board of Directors of ICRA Limited is also an Independent Director on the Board of Directors of Vistaar Financial Services Private Limited (VFSPL). This Director was not involved in any of the discussions and processes related to the Rating of the instrument(s) mentioned herein

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company

VFSPL is a Bangalore based Non Banking Financial Company (NBFC) catering to small businesses primarily in the rural and semi-urban areas. The company's current product can be broadly classified as Small Business Hypothecation Loans (SBHL) and Small Business Mortgage Loans (SBML). SBHL has an average tenure of about 24 months (Max 30 months) with ticket size in the range of Rs 40,000-95,000, the same for SBML is about 54 months (Max 120 months) and ticket size is in the range of Rs 1 lac to 25 lacs. The total managed portfolio of the company, as in March 2017 was Rs.1,124 crore vis a vis Rs.844 crore in March 2016. As in March 2017, SBML accounted for 86% of the total managed portfolio. As on March 31, 2017, the net worth of the company was Rs.541.3 crore with managed gearing at 1.31x.

VFSPL is promoted by Mr. Brahmanand Hedge and Mr. Ramakrishna Nishtala - both the promoters have prior experience in retail lending business. The company had received capital of Rs. 25 crore from two PE investors till March 2012. VFSPL raised fresh capital of Rs. 40 crore as CCPS⁵ during FY2013 and Rs.160 crore during Q1 FY2015. The company further raised Rs. 250 crore fresh capital in the form of CCPS in August 2015. The company operates through its 201 branches in 12 states including Tamil Nadu, Karnataka, Maharashtra, Gujarat, Chhattisgarh, Madhya Pradesh, Rajasthan, Odisha, Uttar Pradesh, Uttarakhand, Haryana and Andhra Pradesh as in March 2017.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. Crore)	FY2018	FY2017	FY2016		FY2015
				July 2017	Jun 2016	Nov 2015	Apr 2015	Oct 2014
1	NCD	LT	314.95	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Positive)
2	Bank Limits	LT	1,003.87	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Positive)
3	Commercial Papers	ST	20.00	-	[ICRA]A2+(Withdrawn)	[ICRA]A2+	[ICRA]A2+	[ICRA]A2

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

⁵ Compulsorily Convertible Preference Shares

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating
Bank Limits	-	-	-	1,003.87	[ICRA]A- (Stable)
NCDs					
INE016P07021	27-08-2013	13.75%	10-09-2018	11.25	[ICRA]A- (Stable)
INE016P07047	18-11-2014	13.50%	13-11-2019	38.70	[ICRA]A- (Stable)
INE016P07054	22-06-2015	13.25%	25-06-2021	42.00	[ICRA]A- (Stable)
INE016P07062	23-06-2016	11.70%	22-07-2022	68.00	[ICRA]A- (Stable)
INE016P07070	26-11-2013	11.20%	29-11-2019	30.00	[ICRA]A- (Stable)
INE016P07088	28-11-2016	11.90%	29-11-2019	75.00	[ICRA]A- (Stable)
INE016P07104	28-11-2016	11.90%	04-01-2019	15.00	[ICRA]A- (Stable)
INE016P07096	28-11-2016	11.90%	06-04-2018	20.00	[ICRA]A- (Stable)
INE016P07112	28-11-2016	11.90%	06-01-2020	15.00	[ICRA]A- (Stable)

Source: Vistaar Financial Services Private Limited

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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