

July 22, 2022

## Visage Holdings & Finance Pvt. Ltd.: Ratings upgraded to [ICRA]BBB (Stable)/[ICRA]A3+; Outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD programme	49.13	-	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Negative), outlook revised to Stable from Negative and withdrawn
NCD programme	36.37	36.37	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Negative) and outlook revised to Stable from Negative
CP programme	60.00	60.00	[ICRA]A3+; upgraded from [ICRA]A3
Long-term fund based – Term loan	25.00	25.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Negative) and outlook revised to Stable from Negative
Short-term fund based – Term loan	25.00	25.00	[ICRA]A3+; upgraded from [ICRA]A3
<b>Total</b>	<b>195.50</b>	<b>146.37</b>	

\*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 has strengthened its capital profile with the net worth increasing to Rs. 453.9 crore in May 2022 from Rs. 245.3 crore in March 2022 (Rs. 230.8 crore in March 2021). The adjusted gearing<sup>1</sup>, which stood at 5.3 times as of March 2022 (3.7 times in March 2021), is therefore expected to have moderated to less than 3 times in Q1 FY2023. The company is in the process of raising additional equity from existing investors, which would further augment the capital profile and support portfolio growth. 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<sup>2</sup> (dpd) reducing to 9.8% as of March 31, 2022 from the peak of 22.4% as of June 2021 and the 90+dpd improving to 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<sup>3</sup>) vis-à-vis Rs. 43.4 crore in FY2021 (4.9% of the AAUM). 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<sup>4</sup> 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. 1,267.8 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 March 31, 2022 (73% as of March 31, 2021). The net profitability {profit after tax (PAT)/average managed assets (AMA)} remains

<sup>1</sup> Adjusted gearing = (on-book borrowing) / (Net worth – First loss given default extended for co-lending exposure)

<sup>2</sup> Dpd numbers are reported net of CGTMSE claims received, the 90+dpd, gross of CGTMSE claims, was 5.4% as of March 2022

<sup>3</sup> Average assets under management

<sup>4</sup> CGTMSE – Credit Guarantee Fund Trust for Micro and Small Enterprises

modest despite the marginal improvement to 1.0% in FY2022 from 0.6% in FY2021. ICRA notes that the company had breached some financial covenants with its lenders as of March 31, 2022 and has received temporary relaxation from most of them.

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.

While ICRA upgraded and revised the outlook on the long-term rating for the Rs. 49.13-crore non-convertible debenture (NCD) programme, the same was withdrawn, in accordance with ICRA's policy on the withdrawal of credit ratings, as the instrument has matured and is fully repaid.

## 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 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 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. 453.9 crore as of May 2022 from Rs. 245.3 crore as of March 2022 (Rs. 230.8 crore as of March 2021). The capital-to-risk weighted assets ratio (CRAR) increased to 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<sup>5</sup> 5.9 times) as of March 31, 2022 from 3.7 times (managed gearing 4.0 times) as of March 31, 2021 and is expected to have moderated to less than 3 times in Q1 FY2023. ICRA also takes note of the proposed capital to be raised in the near term, which will further bolster the overall risk profile and support the envisaged portfolio growth at a CAGR of about 65-67% during FY2023-FY2024. 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 9.8% (Rs. 124.1 crore) and a 90+dpd of 4.7% (Rs. 60.0 crore) as of March 31, 2022. The company's reported gross stage 3 (GS3) assets moderated to 8.6% as of March 31, 2022 from 10.4% as of March 31, 2021 (12.3% as of September 2021); the net stage 3 stood at 5.9% in March 2022 vis-à-vis 8.2% in March 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 4.5% of the gross on-book exposure as of March 31, 2022 from 2.3% as of March 31, 2021.

<sup>5</sup> Managed gearing = (on-book borrowings + total off-book exposure) / Net worth

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 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 as disbursements gained momentum, specifically in H2 FY2022. Nonetheless, its scale remains moderate with an AUM of 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 110 branches. In view of the current scale, Kinara’s portfolio remains largely concentrated in Tamil Nadu (35% as on March 31, 2022), Karnataka (20%), Andhra Pradesh (19%) and Maharashtra (15%). The top 3 states accounted for 74% of the portfolio as of March 31, 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<sup>6</sup> that accounted for 21.4% (Rs. 61.2 crore) of the total income in FY2022. 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. Increased collection efforts and other initiatives to augment the information technology (IT) system and internal management information system (MIS) led to a slight uptick in the operating expense ratio (operating expenses/AMA) to 7.3% FY2022 from 7.1% in FY2021, even as the AUM expanded by 40% during the year.

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. 313 crore as of March 31, 2022. Its debt repayments (including interest) during April-September 2022 amount to ~Rs. 446 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 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 commercial borrowings (ECBs) and alternative investment funds (AIFs) at 35%, 12%, 6% and 6%, respectively. ICRA notes that

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<sup>6</sup> 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

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	<a href="#">ICRA’s Credit Rating Methodology for Non-banking Finance Companies</a> <a href="#">Policy on Withdrawal of Credit Ratings</a>
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 March 31, 2022, Kinara had 110 branches with an AUM of Rs. 1,267.8 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	
				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	49.13	-	[ICRA]BBB (Stable); upgraded and withdrawn	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	NCD programme	Long term	36.37	36.37*	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	CP programme	Short term	60.00	60.00*	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	-	-	-
4	Term loan	Long term	25.00	25.00*	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[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	-	-	-	-	-	-

\*Includes unallocated limits of Rs. 4.37 crore, Rs. 60 crore and Rs. 25 crore towards NCD programme, CP programme and long-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](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE200W07175	NCD programme	Apr 16, 2021	12.00%	Apr 13, 2024	49.13	[ICRA]BBB (Stable); upgraded and withdrawn
INE200W07183	NCD programme	May 25, 2018	12.60%	Dec 24, 2024	32.00	[ICRA]BBB (Stable)
-	NCD programme (unallocated)	NA	NA	NA	4.37	[ICRA]BBB (Stable)
-	CP programme (unallocated)	NA	NA	NA	60.00	[ICRA]A3+
-	Long-term fund based – Term loan (unallocated)	NA	NA	NA	25.00	[ICRA]BBB (Stable)
-	Short-term fund based – Term loan	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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### Branches



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