India Ratings Assigns Visage Holdings's Bank Loan 'IND BBB+'; Outlook Stable

Oct 18, 2022 | Financial Services

India Ratings and Research (Ind-Ra) has taken the following rating actions on Visage Holdings and Finance Private Limited's (Visage) debt instruments:

Instrument Type	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Bank loans	-	-	-	-	INR100	IND BBB+/Stable	Assigned

Key Rating Drivers

Adequate Capital Buffers due to Regular Equity Infusions from Diverse Set of Investors: Visage raised total equity capital of INR4,007 million in its multiple rounds of funding from a mix of investors including Nuveen Global, Pettelar, Patamar Capital, Gaja Capital, Gawa Capital, and Michael and Susan Dell Foundation, over FY18-1QFY22. As a result, the company had a tangible net worth of INR4,452 million and leverage of 2.5x as of 1QFY23 (FY22: INR2,391 million and 4.8x; FY21: INR2,209 million and 3.8x). This, along with another round of infusion of INR1,970 million in September 2022 will be adequate to execute its near-term growth plans, and the company will operate on a leverage of 3.5x, on a steady state basis, as per the management. Furthermore, a traction in the business through the co-lending model could assist the company's growth through a capital light manner.

Enablers for Expanding Franchise in Place: Visage has made adequate investments in technology infrastructure, human resources, systems and processes to expand the franchisee over the long run. It has an experienced management team with expertise in lending and technology. It follows a blend of physical and digital framework for sourcing, underwriting, disbursements and collections. The company uses a high-touch model where the sourcing is done through branch network and digital channels with the help of technology. The company has developed a platform for lending and monitoring which has fully automated workflow and requires limited manual intervention. On its underwriting side, the company uses a data science-based credit decisioning model which underwrites loan proposals. Regarding its geographical footprint, the company is largely present in South India with Tamil Nadu, Karnataka and Andhra Pradesh accounting for 74% of its assets under management (AUM) at FYE22. The company aims to expand to other states to create a pan-India presence, which will reduce its geographical concentration.

Liquidity Indicator - Adequate: As per the asset-liability statement, at end-June 2022, Visage's cumulative inflows exceeded its cumulative outflows by 94% in the one-year bucket, indicating that the liquidity would be adequate even in times of stress. At end-June 2022, the company had on-balance sheet liquidity in the form of unencumbered cash and bank balance of INR3,656 million and mutual fund investments worth INR11 million. This can comfortably cover over six months of outflows (debt maturing in the next six months: INR1,747 million). While there is no board approved policy, the management plans to maintain on-balance sheet liquidity to remain in excess of three months of debt servicing and operational expenditure.

Reasonable Diversification in Funding Avenues: Visage has been able to raise funds from over 30 lenders/investors. Non-banking finance companies (NBFCs; including financial institutions) accounted for 34% of its funding while foreign/domestic funds formed 52%; however, the funding from the banking system (14%) remained limited – three private sector banks (13%) and two small finance banks (1%). Though the spread of lenders is adequate, there is a concentration in terms of funds mobilised from the top lenders/investors. Top three lenders/investors accounted for 42% of borrowings at end-June 2022. Deepening of its relationship with existing lenders and the diversification of lenders would be a key rating monitorable. The company is working towards the same by increasing its spread of lenders and exposure with existing lenders. This will lead to a gradual improvement in funding diversity. The company also uses off-balance funding channel like co-lending to fund assets. Visage had a co-lending arrangement with six NBFCs at FYE22. The total co-lending AUM (including own-book) stood at 30% of the AUM at FYE22.

Asset Quality under Pressure: The pandemic impact on the asset quality has led to elevated delinquency levels for Visage. The company's gross stage 3 stood elevated at 7.9% (FY22: 8.6%; FY21: 10.4%) despite its accelerated write-offs in 1QFY23 (6% of gross loans on annualised basis; FY22: 3.1%; FY21:4.9%). The delinquencies have been stabilising with the improving economic environment, an increased focus on collections and the use of data science-based credit decisioning model. The collection efficiency that reduced to 76% in May 2021 during the second COVID-19 wave had improved to the pre-COVID-19 level of 91% in March 2022. Its new loans, which have been originated using data science-based model, are performing better and Ind-Ra expects the slippages from these loans to remain under control. The early delinquencies (0+days past due; 0+ dpd) largely improved to 11.6% in 1QFY23 (FY22: 10.5%; FY21: 17%).

However, Visage had disbursed about INR431 million under the emergency credit linked guarantee scheme announced by the Reserve Bank of India to support its borrowers and restructured 1,992 loan accounts with outstanding loan accounting for 5% of the AUM at FYE22. Ind-Ra expects the delinquencies to remain elevated for Visage in the near term, due to potential slippages from the restructured and emergency credit linked guarantee scheme benefitted book. Furthermore, the credit cost (1QFY23: 6.3%; FY22: 3.3%; FY21: 5.1%) will remain elevated due to write offs from these slippages and an increase in provisioning coverage ratio as the company does unsecured lending (1QFY23: 30%; FY22: 34%; FY21: 23%; FY20: 43%).

Visage's portfolio is covered under credit guarantee fund scheme for micro and small enterprises, helping in minimising ultimate credit loss. The company received claims worth INR163 million in FY22 towards accounts that were delinquent in the past.

Subdued Profitability; likely to Improve with Scale in Medium Term: Visage lends at an interest rate of 24%-30% which leads to average yield of 27.8% in 1QFY23 on an annualised basis (FY22: 23.3%; FY21: 25.9%). Furthermore, its upfront recognition of a net gain on co-lending is supporting operating profit FY22 onwards (other operating income to average loans; 1QFY23: 8.1%; FY22: 7.4%; FY21: 2.0%). Despite catering to the high-yield segment, the return on asset remained subdued, due to high cost of funds (1QFY23: 13.6%; FY22: 11.8%; FY21: 12.7%), high operational expense (operational expense to AUM: 1QFY23: 10.2%; FY22: 10.3%; FY21: 9.3%) and elevated credit cost (1QFY23: 8%; FY22: 4.4%; FY21: 5.1%).

The cost of funds has inched up with an increase in system level interest rates in 1QFY23 and the agency expects it to remain elevated in the near-to-medium term. Ind-Ra expects operational expenditure, which increased in FY22 on account of employee additions and investments in technology, to normalise in the medium term as the company scales up and its operating leverage plays out. Ind-Ra expects the profitability (return on assets; 1QFY23: 0.44%; FY22: 1.13%; FY21: 0.71%) to remain subdued in the near term, due to elevated credit cost. In the absence of any negative event, the agency expects the profitability to improve in the medium term due to its operating leverage and the normalisation of the credit cost from the impact of the pandemic.

Rating Sensitivities

Positive: Profitable expansion of franchise with a significant improvement in the asset quality, while continuing to improve the geographical diversification and the diversification and deepening of the funding profile and maintaining of an adequate capital buffer could lead to a rating upgrade.

Negative: The following developments, individually or collectively, could lead to a negative rating action:

- a rise in the leverage to above 3.5x on a sustained basis
- a weakening of the operating performance
- a significant deterioration in the asset quality with a sustained rise in non-performing assets
- a deterioration in the liquidity buffer (minimum three months' buffers to be maintained)

Company Profile

Incorporated in 1996, Visage is a non-deposit taking NBFC that was acquired by the current promoters in September 2011 and started lending operations in November 2011under the brand name Kinara Capital. As on 31 March 2022, Kinara had 110 branches with an AUM of INR12.68 billion. Visage offers a multitude of loan products with a tenure of two-to-60 months (average tenure: 40 months) and a loan amount of INR0.1 million-3 million (average ticket size: INR0.8 million). These are mostly unsecured loans (FY22: 80% of AUM) to small businesses for a purchase of assets and working capital management. These target segment includes traders (FY22: 55%) and small manufacturers (FY22: 43%) with monthly turnover of about INR0.5 million-1 million. Visage's AUM stood at INR14.35 billion as of 1QFY23E (FYE22: INR12.7 billion) and expanded at a CAGR of 46% over FY17-FY22.

FINANCIAL SUMMARY

Particulars	1QFY23	FY22	FY21
Total assets (INR million)	16,558	14,535	11,187
Total tangible equity (INR million)	4,452	2,391	2,209
Net income (INR million)	17	146	75
Return on average assets (%)	0.44	1.13	0.71
Debt/equity (x)	2.54	4.75	3.80
Equity/assets (%)	26.89	16.45	19.75
Source: Visage, Ind-Ra			

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Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Level
Bank loans	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

The Rating Process

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October 18, 2022

Dear Sir/Madam,

Re: Rating Letter for BLR of Visage Holdings and Finance Private Limited

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings

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Director

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Annexure: Facilities Breakup

Instrument Description	Banks Name	Ratings	Outstanding/Rated Amount(INR million)
Bank Loan (unutilised)	NA	IND BBB+/Stable	100