To,
India International Exchange (IFSC) Ltd.
1st Floor, Unit No. 101,
The Signature Building No. 13B, Road 1C, Zone 1,
GIFT SEZ, GIFT CITY Gandhinagar
Gujarat 382355 IN

Sub: Intimation of revision in Credit Rating Outlook by India Ratings and Research (Ind-Ra).

Reference: Regulation 119 of International Financial Services Centres Authority (Listing) Regulations, 2024 read with Clause 1 of Chapter 6 of Circular on Listing of Debt Securities on Global Securities Market

Dear Sir / Madam,

Pursuant to Regulation 119 of International Financial Services Centres Authority (Listing) Regulations, 2024 read with Clause 6 of Chapter 6 of Circular on Listing of Debt Securities on Global Securities Market, please be informed that vide letter dated September 27, 2024 issued by India Ratings and Research (**Ind-Ra**), the credit rating outlook of the below mentioned instruments of Kinara Capital Private Limited (formerly known as Visage Holdings and Finance Private Limited) ("Company") has been revised:

Instrument	Previous Rating and Outlook	Revised rating	Rating Action
Bank loan	IND BBB+/Stable	IND BBB+/Negative	Affirmed, Outlook Revised to Negative
Principal-protected market linked debentures	IND PP-MLD BBB+/Stable	IND PP-MLD BBB+/Negative	Affirmed, Outlook Revised to Negative
Non-convertible debentures	IND BBB+/Stable	IND BBB+/Negative	Affirmed, Outlook Revised to Negative

We are enclosing the related rating letter from India Ratings and Research (**Ind-Ra**) for your kind reference.

We request you to kindly take the same on record.

For Kinara Capital Private Limited
(Formerly known as Visage Holdings and Finance Private Limited)
DIMPLE JAGDISH SHAH Digitally signed by DIMPLE JAGDISH SHAH Date: 2024.09.30 15:30:39 +05'30'
Dimple J Shah
Company Secretary
Membership No. A36349
Date: September 30, 2024
Place: Bengaluru
Encl: as above

India Ratings & Research
A Fitch Group Company

India Ratings Revises Outlook on Kinara Capital's NCDs and Bank Loans to Negative; Affirms 'IND BBB+'

Sep 27, 2024 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has taken revised the Outlook on Kinara Capital Private Limited's (Kinara) debt instruments to Negative from Stable, while affirming the ratings on them as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Watch	Rating Action
Bank loan	-	-	-	INR4,350	IND BBB+/Negative	Affirmed, Outlook Revised to Negative
Principal-protected market linked debentures *	-	-	-	INR75 (reduced from INR300)	IND PP-MLD BBB+/Negative	Affirmed, Outlook Revised to Negative
Non-convertible debentures*	-	-	-	INR2,730 (reduced from INR3,000)	IND BBB+/Negative	Affirmed, Outlook Revised to Negative

*Details in Annexure

The rating of the market-linked debentures is an ordinal assessment of the underlying credit risk of the instrument and does not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that coupon payment on these instruments will be based on the performance of a reference index or equity share (detailed in the information memorandum of the issue).

PP-MLD refers to full principal protection in the equity-linked notes, wherein the issuer is obligated to pay the full principal upon maturity.

Analytical Approach

Ind-Ra continues to take a standalone view of Kinara to arrive at the ratings.

Detailed Rationale of the Rating Action

The Outlook revision factors in the deterioration in Kinara's asset quality and the consequent pressure on its profitability in 1QFY25, largely on account of elevated credit costs. The company is adequately capitalised for the current scale of operations, however will need to raise significant incremental capital in the near term to achieve the desired growth. The ratings also factor in the company's reasonably diversified funding profile; however, the ability of the company to further diversify its lender base and raise incremental funding at competitive rates will be key from a rating perspective.

List of Key Rating Drivers

Strengths:

- Adequate capitalisation for current scale of operations
- Enablers for expanding franchise in place
- Reasonable diversification in funding avenues

Weaknesses:
- Moderate asset quality profile
- Profitability remains under pressure

Detailed Description of Key Rating Drivers

Adequate Capitalisation for Current Scale of Operations: Kinara witnessed equity infusions of about INR4,000 million in FY23. This along with internal accruals augmented the company's tangible net worth to INR6,806 million in FY23 (FY22: INR2,391 million) and further to INR7,276 million in FY24. However, it reduced to INR7,175 million as of June 2024, due to modest losses incurred by the company during 1QFY25. The company's tier 1 capital adequacy stood at 26.4% in 1QFY25 (FY24:26.8%, FY23: 30.5%; FY22: 16.65%). In view of the gearing (debt/ tangible equity) of 3.3x as of June 2024 (March 2024: 3.0x; March 2023: 2.4x), the company remains adequately capitalised for the current scale of operations. However, given the growth plans envisaged by the company, an incremental capital infusion in the next 12-18 months is crucial for the company to expand its portfolio while keeping the leverage ratio in check.

Enablers for Expanding Franchise in Place: While Kinara has invested in technology infrastructure, human resources, systems and processes to expand the franchisee over the long run, it follows a blend of physical and digital framework for sourcing, underwriting, disbursements and collections. The company uses a high-touch model, wherein 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 that has a fully automated workflow and requires limited manual intervention. To further enhance its operational efficiency, the company has expanded its senior management team with key additions. With respect to underwriting, Kinara uses a data science-based credit decisioning model that underwrites loan proposals, and the company expects this to decrease potential non-performing assets (NPAs) by improving on the sourcing. The company had witnessed the exit of a key management personnel in August 2024; the company has hired key resources in replacement for the same

Regarding its geographical footprint, the company is largely present in south India, with Tamil Nadu, Karnataka, Telangana and Andhra Pradesh, accounting for 80% of its AUM at end-June 2024. The company shall be concentrating only on existing states for further business growth in the short-to-medium term.

Reasonable Diversification in Funding Avenues: Kinara raised an incremental debt of INR10,690 million in FY24 and INR3,170 million in 1QFY25, from over 41 lenders/ investors. The company has been sanctioned debt of INR29.4 billion, of which INR29.1 billion was availed. With respect to the instrument-wise share of funding, term loans constituted 35.9%, non-convertible debentures (NCDs) along with subordinated debt constituted about 35.3%, and external commercial borrowings constituted 28.5% of the outstanding borrowings as of June 2024. However, with respect to the investor category wise share of borrowings, non-banking finance companies and other funds (NBFCs; including financial institutions and foreign and domestic funds) accounted for 83% of the outstanding borrowings as of June 2024. Funding from the banking system (about 15.5%) remains limited, with eight private sector banks, four small finance banks and one public sector bank. Deepening of its relationships with existing lenders and the diversification of the existing lender base while raising funds at competitive rates would remain 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 its funding diversity. The company also uses off-balance funding channels such as co-lending and direct assignments to fund assets. Kinara had a co-lending arrangement with seven NBFCs and one bank as of June 2024. The company has also reported a breach of some covenants with lenders with respect to profitability and asset quality, of which the company has received waivers from most of the lenders.

Moderate Asset Quality Profile Kinara's new loans, which had been originated using the data science-based model, were performing well until 1HFY24 whereby the PAR0+ improved to 8.4% as of September 2023 (March 2023: 6.3%; September 2022: 9.2%; March 2022: 10.5%). However, the PAR0+ increased to 15% as of June 2024 (March 2024: 10.7%) due to stress in certain sectors and higher ticket size portfolio. Branch-level operations including incremental disbursements and collections were impacted due to the attrition of field staff in the recent quarters.

Kinara's gross stage-3 assets increased to 6.6% in 1QFY25 (FY24:5.6%; FY23: 5.6%). However, around 30.4% of the total AUM as of June 2024 had a guarantee cover (under various schemes such as Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), CGFMU etc), which provides some cushion on credit losses. The net stage-3 assets as of June 2024 post guarantee cover stood at 2.8%. Write-offs increased to INR1,232.7 million during FY24 (FY23: INR742.2 million; FY22: INR312.4 million); the company has incrementally written-off INR463.4 million during 1QFY25. Also, collection efficiency (collections against current month demand) dipped to 84% in June 2024 (April 2023: 91%; September 2023: 90%).

Ind-Ra takes note of the guard-rails implemented by the company to contain the asset quality stress and enhance the operational efficiency, including reduced ticket sizes for incremental disbursements; identification of certain stressed sectors, wherein incremental disbursements have been reduced; strengthening of the portfolio monitoring network and sales & collections infrastructure among others. Considering the inherent risk in the portfolio due to the unsecured nature of the underlying loans, Ind-Ra opines Kinara's focus on the initial assessment of the borrower's credit profile and thrust on collections remain paramount for controlling credit risk in the medium-to-long term.

Profitability Remains Under Pressure Kinara's profitability in 1QFY25 was largely impacted on account of elevated credit costs during the quarter; the credit cost (as a percentage of average loan book) increased to 10.9% (annualised) in 1QFY25 (FY24: 10.4%; FY23: 7.0%), on account of the higher write-offs undertaken by the company during the period. The company reported a loss in 1QFY25 as against profits (as percentage of average assets) of 2.2% in FY24 and 2.1% for FY23. The operating expenses (as a percent of average assets) remained high at 6.6% for FY24, though it was lower than 8.2% in FY23. Ind-Ra expects the operating expenses to remain elevated in the near term, as the company strengthens its collections infrastructure to address the asset quality stress.

Kinara's yields on advances improved in FY23 and FY24, with the increase in the share of higher interest loans during the period, which has supported its yields and interest margins. The share of co-lending portfolio (as percentage of AUM) has increased since FY23, which also supported the interest margins in FY24. However, Ind-Ra anticipates a moderation in yields over the medium term. The agency takes note of the policy revisions undertaken by the company to improve its asset quality, including reduction in the average ticket size for incremental disbursements; the ability to scale-up the portfolio profitably while keeping the credit costs in check will be a key rating monitorable.

Liquidity

Adequate: Ind-Ra believes Kinara would have comfortable liquidity even during stressed times, as the positive cumulative mismatch as a percentage of total tangible assets stood at 24.5% within the one-year bucket as per the asset liability management statement at end-June 2024. The company had INR4.57 billion of unencumbered cash and cash equivalent at end-June 2024; against this, it had scheduled debt repayment and operating expenses of INR3.12 billion in 2QFY24. The company has sufficient liquidity to service three months of fixed outflow. As per the board-approved policy, the management plans to maintain on-balance sheet liquidity in excess of three months of debt servicing and operational expenditure.

Rating Sensitivities

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

Negative: The following developments, individually or collectively, could lead to a negative rating action:
- the leverage exceeding 3.5x on a sustained basis
- a weakening of the operating performance
- significant deterioration in the asset quality with a sustained rise in non-performing assets
- deterioration in the liquidity buffer (minimum three months' buffers to be maintained)

ESG Issues

Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Kinara, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

Incorporated in 1996, Kinara is a non-deposit taking NBFC that was acquired by the current promoters in September 2011. It started lending operations in November 2011 under the brand name of Kinara Capital. As on 30 June 2024, Kinara had an AUM of INR31.89 billion. It offers a multitude of loan products with a tenure of three-to-60 months (average tenure: 36-37 months) and a loan amount of INR0.1 million-3 million (average ticket size: INR1 million). As of June 2024, it operates through 133 branches in six states and one union territory.

Key Financial Indicators

Particulars	FY24	FY23
Total assets (INR million)	30,425	25,017
Total tangible equity (INR million)	7,276	6,807
Net income (INR million)	622	412
Return on average assets (%)	2.25	2.08
Debt/equity (x)	2.98	2.45
Equity/assets (%)	23.91	27.21
Source: Kinara, Ind-Ra *Ratios are as per Ind-Ra's calculations		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook				
				29 December 2023	24 November 2023	22 February 2023	26 December 2022	18 October 2022
Bank loan	Long-term	INR4,350	IND BBB+/Negative	IND BBB+/Stable	IND BBB+/Stable	IND BBB+/Stable	IND BBB+/Stable	IND BBB+/Stable
Principal-protected market linked debentures	Long-term	INR75	IND PP-MLD BBB+/Negative	IND PP-MLD BBB+/Stable	IND PP-MLD BBB+/Stable	IND PP-MLD BBB+/Stable	IND PP-MLD BBB+ emr /Stable	-
Non-convertible debenture	Long-term	INR2,730	IND BBB+/Negative	IND BBB+/Stable	IND BBB+/Stable	IND BBB+/Stable	-	-

Bank wise Facilities Details

The details are as reported by the issuer as on (27 Sep 2024)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	Credit Saison India	Term loan	150	IND BBB+/Negative

2	MAS Financial Services Ltd.	Term loan	52.77	IND BBB+/Negative
3	MAS Financial Services Ltd.	Term loan	52.77	IND BBB+/Negative
4	MAS Financial Services Ltd.	Term loan	52.77	IND BBB+/Negative
5	MANAPPURAM FINANCE LTD	Term loan	115.51	IND BBB+/Negative
6	Utkarsh Small Finance Bank Limited	Term loan	85.71	IND BBB+/Negative
7	IDFC First Bank	Term loan	104.16	IND BBB+/Negative
8	IDFC First Bank	Term loan	312.5	IND BBB+/Negative
9	Maanaveeya Development & Finance Private Limited	Term loan	121.22	IND BBB+/Negative
10	SBM Bank (India) Limited	Term loan	88.88	IND BBB+/Negative
11	ESAF Small Finance Bank	Term loan	75.51	IND BBB+/Negative
12	Shriram finance Limited	Term loan	164.36	IND BBB+/Negative
13	Karur Vysya Bank	Term loan	150	IND BBB+/Negative
14	Yes Bank Ltd	Term loan	156.24	IND BBB+/Negative
15	Vivriti Capital Private Limited	Term loan	230.76	IND BBB+/Negative
16	Vivriti Capital Private Limited	Term loan	119.23	IND BBB+/Negative
17	AU Small Finance Bank Limited	Term loan	200	IND BBB+/Negative
18	SBM Bank (India) Limited	Term loan	194.44	IND BBB+/Negative
19	Maanaveeya Development & Finance Private Limited	Term loan	234.85	IND BBB+/Negative

20	Maanaveeya Development & Finance Private Limited	Term loan	93.93	IND BBB+/Negative
21	ESAF Small Finance Bank	Term loan	88.36	IND BBB+/Negative
22	Capsave Finance Private Limited	Term loan	92.09	IND BBB+/Negative
23	NA	Bank Loan	1414	IND BBB+/Negative

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan	Low
Non-convertible debenture	Low
PPMLD	High*

*Instrument characterised by underlying market risk

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

Annexure

PP-MLD

ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook
INE200W07332	6 January 2023	Variable	6 April 2025	INR75	IND PP-MLD BBB+/Negative
INE200W07316	6 January 2023	Variable	6 April 2026	INR 150	WD (Paid in full)
INE200W07324	6 January 2023	Variable	6 April 2024	INR 75	WD (Paid in full)
Total				**INR75**	
Source: NSDL, Kinara					

NCDs

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Outstanding Amount as of August 2024 (million)	Rating/Outlook
INE200W07340	13 January 2023	13.50	31 March 2026	INR175	IND BBB+/Negative
INE200W07381	7 March 2024	13.00	6 December 2027	INR1,201	IND BBB+/Negative
INE200W07365	15 December 2023	12.24	15 December 2027	INR250	IND BBB+/Negative
INE200W07373	22 December 2023	12.26	22 December 2027	INR250	IND BBB+/Negative
INE200W07357	7 July 2023	10.5	7 July 2026	INR245	WD (Paid in full)
Total utilised				**INR1,876**	
Unutilised				INR854	
Total				**INR2,730**	
Source: NSDL, Kinara					

Contact

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.
Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.
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APPLICABLE CRITERIA AND POLICIES

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

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