June 17, 2022

Vistaar Financial Services Pvt Ltd: Ratings upgraded to [ICRA]A (Stable); short-term rating of [ICRA]A1 assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD Programme	179.00	179.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Long-term Fund-based – Term Loan	1,003.87	964.87	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Short -term Fund-based – Overdraft	-	39.00	[ICRA]A1 assigned
Total	**1,182.87**	**1,182.87**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in Vistaar Financial Services Private Limited's (VFSPL) improved scale and its track record of maintaining stable and adequate earnings, capital and liquidity profile. The company' asset quality has also improved over the recent past. The company has exhibited a stable earning profile, reporting range-bound profit before tax (PBT) margins between 3.5% and 3.8% for the FY2018 to FY2022 period. While the last equity infusion happened in FY2016, a healthy accretion to the net worth enabled it to maintain an adequate capital structure, reporting a gearing of 2.6 times as of March 31, 2022, even as the portfolio grew at a compounded annual growth rate (CAGR) of 19% since FY2016.

The asset quality has improved with 90+dpd improving to 2.8% as of March 2022 from a peak of 4.9% as of August 2021 and lower than the levels of 3.5-4.0% witnessed during the FY2018 to FY2020 (pre-Covid) period. The company's standard restructured book stood at 4.3% as of March 2022 (6.2% in March 2021); its performance, however, remains monitorable. VFSPL has gradually changed its product mix and currently focusses on mortgage-backed lending. This increased the share of higher ticket size loans (>Rs. 25 lakh), higher-tenor (>84 months) and higher loan-to-value (LTV; > 60%) in its AUM. The risks arising on account of the above is mitigated by the share of borrowers with better profiles (CIBIL score of >700), which has improved to ~65% of its portfolio as of March 2022 from ~41% as of March 2020. ICRA has also taken note of VFSPL's regionally concentrated operations with the top three states accounting for 71% of the AUM as of March 2022.

The Stable outlook on the long-term rating reflects VFSPL's stable financial risk profile over the past five years despite the various disruptions caused by the pandemic and the shift to a secured lending book. The implication of adverse macro-economic factors seen at present on its asset quality and earnings performance shall be a monitorable; however, the adequate capital profile provides comfort.

Key rating drivers and their description

Credit strengths

Experience in small business loan segment – VFSPL commenced operations in 2010 and is led by Mr. Brahmanand Hegde and Mr. Ramakrishna Nishtala, who have considerable experience in the retail lending business. The company has an eight-member board consisting of two promoter directors, three nominee directors representing the private equity (PE) investors and three independent directors. The company follows a cluster-based approach with branches in areas with high concentration of small businesses/micro enterprises. VFSPL targets small businesses such as shops, small manufacturing units, power looms, kirana/general shops, and home-based industries, which do not have access to organised funding to grow.

The company's growth and asset quality were impacted post demonetisation, especially in the small-ticket hypothecation loan segment (small business hypothecation loans - SBHL; non-mortgage backed credit) and the dairy & allied segments. In response, VFSPL has steadily revised its product mix and is currently focusing only on mortgage-backed credit products. Accordingly, there has been increase in the enterprise book of VFSPL to 98.5% as on March 31, 2022 from 47% as on March 31, 2016.

Stable earning profile- A steady improvement in the operating efficiencies helped the company offset the impact of contracting margins and credit cost-related pressures over the last few years. The change in the product mix with increased exposure to higher ticket and secured loans, fetching lower yields, impacted VFSPL's NIMs, which declined to 10.2% in FY2022 from 15.9% in FY2018. Between FY2018 and FY2021, the company's credit cost remained elevated in the range of 2.5% to 3% due to the stress in the legacy portfolio and increased provisions in view of the pandemic-led disruptions. The credit costs in FY2022 was lower as the company utilised the provisions created over the past period to set-off the Covid-related delinquencies. A steady moderation in the operating expense ratio (operating cost as a proportion of average managed assets reduced to 5.2% in FY2022 from 9.2% in FY2018) helped it to report a stable earnings performance. VFSPL' PBT margins have remained range-bound between 3.5% and 3.8% during the above-mentioned period. ICRA expects stress on NIMs in the near term on account of the increase in the cost of funds; a sustained improvement in operating efficiency and keeping credit costs under control would remain crucial going forward.

Adequate capital structure – VFSPL has an adequate capital structure, with a managed gearing of 2.6 times as of March 31, 2022 and a capital to risk weighted asset ratio (CRAR) of 30.0%. The managed gearing has increased from about 1.3 times in March 2018; ICRA, however, notes that the management's plan to maintain a prudent capitalisation level with the managed gearing not exceeding 3.5-4.0 times in the near term provides comfort. ICRA also takes note of the proposed capital to be raised in the near term, which could bolster its overall risk profile and support the envisaged portfolio growth of 30-35% per annum.

Improvement in asset quality – VFSPL's client profile comprises self-employed borrowers engaged in small businesses such as kirana, hotels, bakeries, brick kilns, small manufacturing units, dairy and allied activities and home-based enterprises, among others. The modest credit profile of such borrowers exposes them to income shocks, which could impact VFSPL's asset quality. However, with the changes in the product mix, the company has increased its focus on borrowers with relatively better credit profile.

In the backdrop of pandemic-led disruptions, VFSPL' 0+dpd had peaked to 14.7% as of June 2021. Subsequently, with increased slippages, the 90+dpd peaked to 4.9% as of August 2021. However, the 0+dpd and 90+dpd improved to 8.7% and 2.8%, respectively, as of March 2022 with the improvement in collections. Further, the standard restructured portfolio reduced to Rs. 100.1 crore as of March 31, 2022 from Rs. 123.9 crore as of March 31, 2021, accounting for 4.3% of the portfolio. The write-offs increased to Rs. 55.7 crore in FY2022 from Rs. 38.71 crore in FY2021. VFSPL utilised the additional provisions created in view of the pandemic towards the write-offs. Accordingly, the overall provisions (as a proportion of portfolio) moderated to 1.9% as on March 31, 2022 (higher than March 2019 levels) from 3.6% as on March 31, 2021.

Credit challenges

Scale remain moderate notwithstanding the growth; operations are regionally concentrated – VFSPL's AUM increased at a CAGR of about 17% during FY2018-FY2022. Nonetheless, its scale is moderate with a portfolio of Rs. 2,420 crore as of March 2022 vis-à-vis Rs. 2,065 crore as of March 2021. VFSPL's portfolio is largely concentrated in Tamil Nadu (37%), Karnataka (23%), Andhra Pradesh (11%) and Maharashtra (7%) as on March 31, 2022. While expansion to new states has improved its geographical diversity, the top three states continued to account for about 71% of its total portfolio as of March 2022 (69% in March 2019), exposing it to concentration-related risks. Going forward, VFSPL intends to grow and diversify its portfolio, which could result in a gradual reduction in the share of these states in the overall portfolio.

Increase in share of higher ticket, tenure and LTV loans – In the last five years, VFSPL has improved its exposure to a segment with a better risk profile. This is validated by the increase in the share of portfolio with a CIBIL score of >700 to 65% as of March 2022 from 41% as of March 2020. Further, with an intent to retain its borrowers having an established track record and increase its exposure to affordable home loan, the company has gradually increased it exposure to higher ticket loans having higher tenure, lower yields and lower LTV. ICRA takes note of the increase in the share of higher ticket size loans (>Rs. 25 lakh) to 18% of the AUM as of March 2022 from about 2% as of March 2018. The share of higher-tenor loans (>84 months) increased to 68% of the AUM as of March 2022 from 22% as of March 2018, while the share of loans with a loan-to-value (LTV) of more than 60% also inched up to 29% in March 2022 from 21% in March 2018. The average LTV stood at 50% as of March 31, 2022. VFSPL's ability to maintain and subsequently improve its asset quality and resultant impact on the earnings will be a monitorable. The company has access to the SARFAESI Act for recoveries from higher ticket loans, which could improve recoveries and limit ultimate losses.

Liquidity position: Adequate

VFSPL had unencumbered cash and liquid investments of ~Rs. 348 crore as on March 31, 2022. Its debt repayments (including interest) during April-September 2022 amount to ~Rs. 430.8 crore. The company recorded an average monthly collection (including overdue collections and excluding prepayments and foreclosures) of Rs. 52.5 crore during October 2021 to March 2022. Further, the company's asset liability maturity (ALM) profile, as on March 31, 2022, reflected positive cumulative mismatches across all the buckets.

As on March 31, 2022, VFSPL had borrowings from more than 42 lenders, comprising a mix of public sector banks (11), private sector banks (17) and non-banking financial institutions (NBFCs, 10). Vistaar's lender profile, as on March 31, 2022, was skewed towards funding from banks, constituting 72% of the total borrowings. NBFCs formed 14% of the borrowings, followed by financial institutions (10%) and mutual funds (3%).

Rating sensitivities

Positive factors – ICRA could revise the outlook to positive or upgrade the ratings if VFSPL is able to sustain a good quality portfolio growth while maintaining its healthy earnings profile over the medium term.

Negative factors – Pressure on the ratings could arise in case of an increase in the leverage beyond 4.5 times or a deterioration in the asset quality indicators with the 90+dpd increasing beyond 5.0%, resulting in a decline in the RoMA on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the company.

About the company

VFSPL is a Bengaluru-based non-banking financial company (NBFC) catering to small businesses. It commenced operations in 2010 with focus on microfinance (MF) loans. However, it shifted its focus to providing loans to micro, small and medium enterprises (MSMEs) in rural and semi-urban areas from April 2011 and stopped disbursing new MF loans from August 2011. The company mainly provides small business mortgage loans (SBMLs). Small businesses funded by VFSPL include kirana/general stores/shops, power/auto/handlooms, dairy and allied products, and small manufacturing units.

VFSPL is promoted by Mr. Brahmanand Hegde and Mr. Ramakrishna Nishtala, who have prior experience in the retail lending business. The company received a capital of Rs. 25 crore from two PE investors till March 2012. It subsequently raised an additional capital of Rs. 40 crore as compulsorily convertible preference shares (CCPS) in FY2013 and Rs. 160 crore in Q1 FY2015. In FY2016, VFSPL received another capital infusion of about Rs. 250 crore from the existing investors. The company operates through 191 branches in 12 states/UTs, including Tamil Nadu, Karnataka, Maharashtra, Gujarat, Madhya Pradesh, Rajasthan, Odisha, Uttar Pradesh, Andhra Pradesh, Telangana, Haryana and Delhi as of March 2022.

Key financial indicators

Vistaar Financial Services Pvt Ltd	FY2020	FY2021	FY2022
Total income (Rs. crore)	368.4	390.8	433.6
Profit after tax (Rs. crore)	45.0	64.8	74.2
Net worth (Rs. crore)	640.2	703.5	784.9
Loan book (Rs. crore)	1,863.9	2,050.7	2,394.2
Total managed assets[1] (Rs. crore)	2,104.4	2,438.0	2,936.7
Return on managed assets (%)	2.5%	2.9%	2.8%
Return on net worth (%)	7.3%	9.6%	10.0%
Managed gearing (times)	2.1	2.3	2.6
Gross Stage 3 (%)	3.7%	3.2%	2.7%
Net Stage 3 (%)	2.5%	2.2%	1.9%
Solvency (Net stage 3/Net worth)	6.9%	6.0%	5.5%
CRAR (%)	37.6%	36.5%	30.0%

Source: Company, ICRA Research. All ratios as per ICRA calculations.

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
					Jun 17, 2022	Jul 20, 2021	Jan 05, 2021 Jul 01, 2020 Jun 08, 2020	Jul 15, 2019
1	NCD	Long-term	179.00	179.00	[ICRA]A(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Term Loans	Long-term	964.87	964.87	[ICRA]A(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	Overdraft	Short-term	39.00	39.00	[ICRA]A1	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD Programme	Simple
Long-term Fund-based – Term Loan	Simple
Short -term Fund-based – Overdraft	Simple

[1] *Total managed assets = Total assets + off-book AUM*

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
INE016P07146	Non Convertible Debentures	24-Aug-2018	10.50%	23-Jul-2025	69.00	[ICRA]A (Stable)
INE016P07153	Non Convertible Debentures	17-Jun-2020	RBI REPO RATE+7.45%	21-Apr-2023	10.00	[ICRA]A (Stable)
INE016P07161	Non Convertible Debentures	29-Jun-2020	9.75%	29-Jun-2023	50.00	[ICRA]A (Stable)
INE016P07179	Non Convertible Debentures	31-Dec-2020	9.53%	30-Jun-2022	50.00	[ICRA]A (Stable)
NA	Long-term Fund-based – Term Loan	17-Aug-2017 to 25-Mar-2022	-	29-Jun-2022 to 31-Dec-2028	947.08	[ICRA]A (Stable)
NA	Long-term Fund-based – Term Loan (unallocated)	-	-	-	17.79	[ICRA]A (Stable)
NA	Short -term Fund-based – Overdraft	-	-	-	37.00	[ICRA]A1
NA	Short -term Fund-based – Overdraft (unallocated)	-	-	-	2.00	[ICRA]A1

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: 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.

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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