November 25, 2022

Vistaar Financial Services Pvt Ltd: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD programme	129.00	129.00	[ICRA]A (Stable); Reaffirmed
NCD programme	50.00	-	[ICRA]A (Stable); Reaffirmed and withdrawn
Long-term fund based – Term loan	964.87	1,461.00	[ICRA]A (Stable); Reaffirmed/ assigned for enhanced amount
Short-term fund based – Overdraft	39.00	39.00	[ICRA]A1; Reaffirmed
Total	**1,182.87**	**1,629.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in Vistaar Financial Services Pvt Ltd's (VFSPL) improved scale and its track record of maintaining a stable and adequate earnings, capital and liquidity profile. The company's asset quality has also largely stabilised in the recent past. The company has exhibited a stable earnings profile, reporting range-bound profit before tax (PBT) margins between 3.5% and 3.8% during FY2018 to FY2022. While the last equity infusion was in FY2016, healthy accretion to the net worth enabled it to maintain an adequate capital structure, reporting a managed gearing of 2.7 times as of September 30, 2022, even as the portfolio grew at a compound annual growth rate (CAGR) of 19% since FY2016.

The asset quality has improved with the 90+ days past due (dpd) improving to 3.1% as of September 2022 (2.8% as of March 2022) from the peak of 4.9% as of August 2021 and lower than the levels of 3.5-4.0% witnessed during FY2018 to FY2020 (pre-Covid-19 pandemic period). The company's standard restructured book stood at 2.8% as of September 2022 (4.3% as of March 2022); 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 assets under management (AUM). The risks arising on account of the above are, to an extent, mitigated by the share of borrowers with better profiles (CIBIL score of >700), which has improved to ~67% of the portfolio as of September 2022 from ~41% as of March 2020. ICRA has also taken note of VFSPL's regionally concentrated operations with the top 3 states accounting for 72% of the AUM as of September 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 the current adverse macro-economic factors on its asset quality and earnings performance shall be a monitorable; however, the adequate capital profile provides comfort.

ICRA has also reaffirmed and withdrawn the long-term rating outstanding on the Rs. 50.00-crore non-convertible debenture (NCD), in accordance with its policy on the withdrawal of credit ratings, as the instrument has matured and is fully repaid.

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 (SBHLs); non-mortgage backed credit) and the dairy & allied segments. In response, VFSPL has steadily revised its product mix and is currently focussing only on mortgage-backed credit products. Accordingly, VFSPL's enterprise book increased to 98.5% as on September 30, 2022 from 47% as on March 31, 2016.

Stable earnings profile – A steady improvement in its operating efficiency 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 net interest margins (NIMs), which declined to 11.2% in September 2022 (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 3.0% due to the stress in the legacy portfolio and increased provisions in view of the pandemic-led disruptions. The credit costs were lower in FY2022 as the company utilised the provisions created in the past to set off the Covid-related delinquencies. The steady moderation in the operating expense ratio (operating cost, as a proportion of average managed assets, reduced to 5.5% in September 2022 (5.2% in FY2022) from 9.2% in FY2018) helped it report a stable earnings performance. ICRA expects stress on NIMs in the near term on account of the increase in the cost of funds; a sustained improvement in the operating efficiency and keeping the credit costs under control would remain crucial going forward.

Adequate capital structure – VFSPL has an adequate capital structure, with a managed gearing of 2.7 times as of September 30, 2022 and a capital to risk weighted assets ratio (CRAR) of 28.8%. The managed gearing has increased from 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 planned acquisition of a majority stake in the company by a global PE firm – Warburg Pincus, and the likely capital raise in FY2024, which could support its medium-term portfolio growth.

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 profiles.

In the backdrop of the pandemic-led disruptions, VFSPL's 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+ and 90+dpd improved to 8.4% and 3.1%, respectively, as of September 2022 with the improvement in collections. Further, the standard restructured portfolio reduced to Rs. 76.1 crore as of September 30, 2022 (Rs. 100.1 crore as of March 31, 2022) from Rs. 123.9 crore as of March 31, 2021, accounting for 2.8% of the portfolio. 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 2.1% as on September 30, 2022 from 3.6% as on March 31, 2021.

Credit challenges

Scale remains moderate, notwithstanding growth; regionally concentrated operations – VFSPL's AUM increased at a CAGR of about 17% during FY2018-FY2022. Nonetheless, its scale is moderate with a portfolio of Rs. 2,687 crore as of September

2022 vis-à-vis Rs. 2,065 crore as of March 2021. VFSPL's portfolio was largely concentrated in Tamil Nadu (37%), Karnataka (23%), Andhra Pradesh (11%) and Maharashtra (7%) as on September 30, 2022. While expansion to new states has improved its geographical diversity, the top 3 states continued to account for about 72% of its total portfolio as of September 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 loans with higher ticket, tenure and LTV – 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 67% as of September 2022 from 41% as of March 2020. Further, with the intent to retain borrowers with an established track record and increase its exposure to affordable home loans, the company has gradually increased its exposure to higher-ticket loans with 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 17% of the AUM as of September 2022 from about 2% as of March 2018. The share of higher-tenor loans (>84 months) increased to 72% of the AUM as of September 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 September 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 the resultant impact on its 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 the ultimate losses.

Liquidity position: Adequate

VFSPL had unencumbered cash and liquid investments of ~Rs. 319 crore as on October 31, 2022. Its debt repayments (including interest) during November-April 2023 amount to Rs. 517.5 crore. The company recorded average monthly collections (including overdue collections and excluding prepayments and foreclosures) of ~Rs. 55 crore during March 2022 to September 2022, which is expected to continue in the near term as well. Its asset-liability maturity (ALM) profile, as on September 30, 2022, reflected positive cumulative mismatches across all the buckets.

As on September 30, 2022, VFSPL had borrowings from more than 42 lenders, comprising a mix of public sector banks (8), private sector banks (20) and non-banking financial institutions (NBFCs; 16). Its lender profile, as on September 30, 2022, was skewed towards funding from banks, constituting 73% of the total borrowings. NBFCs/financial institutions formed 10% of the borrowings, followed by non-convertible debentures (NCDs; 7%) and external commercial borrowings (ECBs; 10%).

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the ratings if VFSPL is able to sustain 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 return on managed assets (RoMA) on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are 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 capital of Rs. 25 crore from two PE investors till March 2012. It subsequently raised 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 205 branches in 12 states/Union Territories, including Tamil Nadu, Karnataka, Maharashtra, Gujarat, Madhya Pradesh, Rajasthan, Odisha, Uttar Pradesh, Andhra Pradesh, Telangana, Haryana and Delhi as of September 2022.

Key financial indicators

Vistaar Financial Services Pvt Ltd	FY2020	FY2021	FY2022	H1 FY2023
Total income	368.4	390.8	433.6	268.5
Profit after tax	45.0	64.8	74.2	56.1
Net worth	640.2	703.5	784.9	842.3
Loan book	1,863.9	2,050.7	2,394.2	2,669.8
Total managed assets[1]	2,104.4	2,438.0	2,936.7	3,211
Return on managed assets	2.5%	2.9%	2.8%	3.7%
Return on net worth	7.3%	9.6%	10.0%	13.8%
Managed gearing (times)	2.1	2.3	2.6	2.7
Gross stage 3	3.7%	3.2%	2.7%	3.1%
Net stage 3	2.5%	2.2%	1.9%	2.1%
Solvency (Net stage 3/Net worth)	6.9%	6.0%	5.5%	6%
CRAR	37.6%	36.5%	30.0%	28.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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

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
					Nov 25, 2022	Jun 17, 2022	Jul 20, 2021	Jan 05, 2021 Jul 01, 2020 Jun 08, 2020	Jul 15, 2019
1	**NCD**	Long term	129.00	129.00	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	**NCD**	Long term	50.00	0.00	**[ICRA]A (Stable); withdrawn**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
3	**Term loans**	Long term	1,461.00	1,461.00	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
4	**Overdraft**	Short term	39.00	39.00	**[ICRA]A1**	**[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

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: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE016P07146	Non-convertible debentures	Aug-24-2018	10.50%	Jul-23-2025	69.00	[ICRA]A (Stable)
INE016P07153	Non-convertible debentures	Jun-17-2020	RBI REPO RATE+7.45%	Apr-21-2023	10.00	[ICRA]A (Stable)
INE016P07161	Non-convertible debentures	Jun-29-2020	9.75%	Jun-29-2023	50.00	[ICRA]A (Stable)
INE016P07179	Non-convertible debentures	Dec-31-2020	9.53%	Jun-30-2022	50.00	[ICRA]A (Stable); withdrawn
NA	Long-term fund-based – Term loan	Aug-17-2017 to Mar-25-2022	-	Jun-29-2022 to Dec-31-2028	1,138.7	[ICRA]A (Stable)
NA	Long-term fund-based – Term loan (unallocated)	-	-	-	322.3	[ICRA]A (Stable)
NA	Short-term fund based – Overdraft	-	-	-	32.00	[ICRA]A1
NA	Short-term fund based – Overdraft (unallocated)	-	-	-	7.00	[ICRA]A1

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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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.

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