ICRA

August 04, 2023

Vistaar Financial Services Pvt Ltd: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD programme	69.00	69.00	[ICRA]A (Positive); Reaffirmed and outlook revised to Positive from Stable
NCD programme	60.00	-	[ICRA]A (Positive) reaffirmed; Outlook revised to Positive from Stable and withdrawn
Long-term fund based – Term loan	1,461.00	1,461.00	[[ICRA]A (Positive); Reaffirmed and outlook revised to Positive from Stable
Short-term fund based – Overdraft	39.00	39.00	[ICRA]A1; Reaffirmed
Total	**1,629.00**	**1,569.00**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the rating outlook of Vistaar Financial Services Pvt Ltd (VFSPL), factors in its strengthened capital profile, backed by equity capital infusion of Rs. 300 crore by Warburg Pincus in May 2023. The rating action also factors in the steady improvement in the company's asset quality and earnings profile.

VFSPL continues to have regionally concentrated operations with the top 3 states accounting for 73.5% of its assets under management (AUM) as of March 2023. However, ICRA expects the concentration to reduce gradually over the medium term as the company expands. VFSPL is currently focussed only on mortgage-backed lending. The share of loans with a higher ticket size (>Rs. 25 lakh), higher tenor (>84 months) and higher loan-to-value (LTV; > 60%) in its AUM remains elevated after the increase witnessed over the last five years. The risks arising on account of the above are partially mitigated by the share of borrowers with better profiles (CIBIL score of >700), which improved to ~68% of the portfolio as of March 2023 from ~41% as of March 2020. ICRA takes note of the company's plan to focus on lower ticket size loans in the near term to improve its portfolio granularity.

VFSPL's earnings profile has improved over the last few years, with its net profitability[1] increasing to 3.1% in FY2023 from 2.5% in FY2020. ICRA expects the profitability to remain at a similar level of around 3% in the near term. The asset quality has improved with the 90+ days past due (dpd) declining to 2.3% as of March 2023 (2.8% as of March 2022) from the levels of 3.5-4.0% witnessed during FY2018 to FY2020 (pre-Covid-19 pandemic period). The company's restructured book outstanding has also declined significantly, with its standard restructured book at 0.5% as of March 2023 compared to 4.3% as of March 2022.

ICRA has simultaneously reaffirmed, changed the outlook to Positive and withdrawn the long-term rating outstanding on the Rs. 50.0-crore and Rs. 10.0-crore non-convertible debentures (NCDs) as the instruments have matured and have been fully repaid. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

[1] *Profit after tax / Average managed assets*

Key rating drivers and their description

Credit strengths

Experience in small business loan segment – VFSPL commenced operations in 2010 and was previously led by Mr. Brahmanand Hegde and Mr. Ramakrishna Nishtala. Following the acquisition of a majority stake in the company in Q1 FY2024 by Warburg Pincus, the promoters have resigned from their executive positions in the company, though they continue to be members of the board. VFSPL has appointed Mr. Avijit Saha as its Chief Executive Officer (CEO). He has significant experience as the Business Head of ICICI Bank's rural and inclusive banking. The company has a seven-member board consisting of two founder directors, two nominee directors representing the private equity (PE) investor and three independent directors. It 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. Thus, VFSPL revised its product mix and is focussing only on mortgage-backed credit products. Accordingly, its enterprise book, which is backed by mortgage, increased to 98.9% as on March 31, 2023 from 57% as on March 31, 2016. Within this, ~22% of the portfolio was constituted by loans towards housing purposes.

Strengthened capital structure – Warburg Pincus acquired a majority stake of about 94% in the company in Q1 FY2024. As a part of the acquisition, it has also infused Rs. 300 crore equity capital, which is expected to support VFSPL's capital profile over the next two to three years. VFSPL has a comfortable capital structure, with a managed gearing of 2.9 times and a capital-to-risk weighted assets ratio (CRAR) of 26.4% as of March 31, 2023. The CRAR improved further to 36.7%, post the recent capital infusion. The company is expected to raise further capital over 2-3 years, which would support its long-term portfolio growth. ICRA notes that the management's plan to maintain a prudent capitalisation level with the managed gearing not exceeding 4.0 times in the near term provides comfort.

Improvement in asset quality – VFSPL's asset quality parameters have witnessed a steady improvement vis-à-vis the pandemic period. With the improvement in collections, the 0+ and 90+dpd improved to 6.1% and 2.3%, respectively, as of March 2023. Further, the standard restructured portfolio reduced to Rs. 15 crore as of March 31, 2023 from Rs. 100.1 crore as of March 31, 2022, accounting for 0.5% of the portfolio. Write-offs decreased to Rs. 11.5 crore in FY2023 from Rs. 55.7 crore in FY2022 (Rs. 38.71 crore in FY2021). Accordingly, the credit cost moderated to 0.9% as on March 31, 2023 from 1.3% as on March 31, 2022.

VFSPL's client profile comprises self-employed borrowers engaged in small businesses such as kirana/general shops, hotels, bakeries, brick kilns, small manufacturing units, dairy and allied activities and home-based enterprises, among others. Such borrowers are typically exposed to overall business activity levels and the macroeconomic outlook, making them vulnerable to income shocks. The company, however, has steadily increased its focus on borrowers with relatively better credit profiles (CIBIL score >700 accounting for ~68% of the portfolio as of March 31, 2023).

Earnings profile supported by declining credit cost – With the reduction in its exposure to the unsecured book (dairy loans; 1.1% as on March 31, 2023) and the maintenance of prudent underwriting norms, the company has steadily improved its credit provisioning and write-offs over the last few years. VFSPL's write-offs declined to 0.4% in FY2023 from 2.3% in FY2022, while it has continued to keep its total provisions (including management overlays) steady at 1.8% of AUM as of March 2023. Operating expenses also moderated steadily in the past, with the operating cost (as a proportion of average managed assets) reducing from 9.2% in FY2018 to 5.2% in FY2022 and remaining stable at 5.3% in FY2023. However, the company faced a steady moderation in its business yields as it focussed on borrowers with a better profile.

In view of the above, the net impact on profitability (return on managed assets; RoMA) was relatively moderate, though RoMA improved to 3.1% in FY2023 from 2.5% in FY2020 (2.3% in FY2019). As the company granularises its portfolio going forward, the business yields should improve. VFSPL's ability to keep its credit cost under control and maintain or improve its operating efficiency would be key. ICRA expects the profitability to remain at around 3% in the near term.

Credit challenges

Scale remains moderate, notwithstanding growth; regionally concentrated operations – VFSPL's AUM increased by 29% during FY2023. Nonetheless, its scale is moderate with a portfolio of Rs. 3,133 crore as of 2023 vis-à-vis Rs. 2,420 crore as of March 2022. As on March 31, 2023, VFSPL's portfolio was largely concentrated in Tamil Nadu (38%), Karnataka (23%), Andhra Pradesh (13%) and Madhya Pradesh (6%). While expansion to new states has improved its geographical diversity, the top 3 states continued to account for about 74% of its total portfolio as of March 2023, 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.

Sizeable share of loans with higher ticket, tenure and LTV – ICRA takes note of the sizeable share of higher ticket size loans (>Rs. 25 lakh) at 16.4% of the AUM as of March 2023 (17.9% in March 2022) vis-à-vis 1.1% as of March 2018. The share of higher-tenor loans (>84 months) also increased to 74.4% of the AUM as of March 2023 (67.9% in March 2022) from 15% as of March 2018, while the share of loans with LTV of more than 60% rose to 29.4% as of March 2023 (29.3% in March 2022) from 20.6% in March 2018. The average LTV stood at ~50% as of March 31, 2023.

ICRA, however, notes that VFSPL has improved its exposure to a segment with a better risk profile. This is validated by the increase in the share of the portfolio with a CIBIL score of >700 to 68% as of March 2023 from 41% as of March 2020. Further, a sizable portion of its loan book is targeted towards borrowers who are from new to business loan segment. With the intent to retain borrowers with an established track record and increase its exposure to affordable home loans, the company had gradually increased its exposure to loans with higher tenure, lower yields and higher LTV. Incrementally, ICRA takes note of VFSPL's efforts to granularise its loan book, which should reduce loan concentration related risks.

Liquidity position: Adequate

VFSPL had unencumbered cash and liquid investments of Rs. 488.7 crore as on May 31, 2023. Its debt repayments (including interest) from June 2023 to November 30, 2023 amount to Rs. 602.2 crore. The company has Rs. 250.0 crore of sanctioned but unavailed lines along with collections due of Rs. 560.1 crore between June 2023 and November 2023. Its asset-liability maturity (ALM) profile, as on May 31, 2023, reflected positive cumulative mismatches across all buckets.

As on March 31, 2023, VFSPL had borrowings from around 42 lenders, comprising a mix of public sector banks (7), private sector banks (25) and non-banking financial institutions/financial institutions (NBFCs/FIs; 10). Its lender profile, as on March 31, 2023, was skewed towards funding from banks, constituting 77% of the total borrowings. NBFCs/FIs formed 9% of the borrowings, followed by NCDs (6%) and external commercial borrowings (ECBs; 7%).

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 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 was promoted by Mr. Brahmanand Hegde and Mr. Ramakrishna Nishtala, who have experience in the retail lending business. Warburg Pincus LLC acquired a majority stake in the company in Q1 FY2024, with a shareholding of 93.9% as of May 25, 2023. Warburg Pincus also infused capital of Rs. 300 crore in May 2023. Following the acquisition of the majority stake by Warburg Pincus, the promoters have resigned from their executive positions in the company, though they remain on the board. VFSPL has appointed Mr. Avijit Saha as its Chief Executive Officer (CEO).

The company operates through 211 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 March 2023.

Key financial indicators

Vistaar Financial Services Pvt Ltd	FY2021	FY2022	FY2023
Total income	390.8	433.6	538.9
Profit after tax	64.8	74.2	100.0
Net worth	703.5	784.9	885.1
AUM	2,065.4	2,419.8	3,132.5
Total managed assets	2,438.0	2,936.8	3,566.6
Return on managed assets	2.9%	2.8%	3.1%
Return on net worth	9.6%	10.0%	12.0%
Managed gearing (times)	2.3	2.6	2.9
Gross stage 3	3.2%	2.7%	3.8%*
Net stage 3	2.2%	1.9%	2.5%*
Solvency (Net stage 3/Net worth)	6.0%	5.5%	8.1%*
CRAR	36.5%	30.0%	26.4%

*Source: Company, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations; *As per RBI circular dated November 2021*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Aug 04, 2023	Nov 25, 2022	Jun 17, 2022	Jul 20, 2021	Jan 05, 2021 Jul 01, 2020 Jun 08, 2020
1	**NCD**	Long-term fund based – Term loan	69.00	69.00	**[ICRA]A (Positive)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	**NCD**	Long-term fund based – Term loan	50.00	0.00	**[ICRA]A (Positive); withdrawn**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	-
3	**NCD**	Long-term fund based – Term loan	10.00	0.00	**[ICRA]A (Positive); withdrawn**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
4	**Term loans**	Long-term fund based – Term loan	1,461.00	1,461.00	**[ICRA]A (Positive)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
5	**Overdraft**	Short-term fund based –Overdraft	39.00	39.00	**[ICRA]A1**	**[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 (Positive)
INE016P07153	**Non-convertible debentures**	Jun-17-2020	RBI REPO Rate + 7.45%	Apr-21-2023	10.00	[ICRA]A (Positive); withdrawn
INE016P07161	**Non-convertible debentures**	Jun-29-2020	9.75%	Jun-29-2023	50.00	[ICRA]A (Positive); withdrawn
NA	**Long-term fund based – Term loan**	Aug-17-2017 to Apr-28-2023	-	Jun-29-2022 to Sep-15-2029	1,345.84	[ICRA]A (Positive)
NA	**Long-term fund based – Term loan (unallocated)**	-	-	-	115.16	[ICRA]A (Positive)
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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