February 07, 2024

Vistaar Financial Services Pvt Ltd: Ratings upgraded to [ICRA]A+ (Stable)/[ICRA]A1+ and outlook revised to Stable; rated amount enhanced

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+ (Stable); Upgraded from [ICRA]A (Positive) and outlook revised to Stable from Positive
NCD programme	-	175.00	[ICRA]A+ (Stable); Assigned
Long-term fund based – Term loan	1,461.00	1,461.00	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Positive) and outlook revised to Stable from Positive
Short-term fund based – Overdraft	39.00	39.00	[ICRA]A1+; Upgraded from [ICRA]A1
Total	**1,569.00**	**1,744.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings upgrade factors in the improvement in Vistaar Financial Services Pvt Ltd's (VFSPL) asset quality and earnings profile as it scaled up its portfolio. The ratings also factor in the strengthened capital profile, backed by the equity capital infusion of Rs. 300 crore by Warburg Pincus in May 2023. VFSPL's gross stage 3 (GS3) improved to 3.2% as of September 2023 (3.8% as of March 2023 and PAR 90+ of 2.7% as of March 2022) from 3.5-4.0% during FY2018 to FY2020 (pre-Covid-19 pandemic period). Its GS3 (provisional) stood at 3.2% as of December 2023.

The company's restructured book outstanding has also declined significantly, with its standard restructured book at 0.3% of the portfolio as of September 2023 compared to 4.3% as of March 2022. With the impact of the pandemic largely absorbed, write-offs were nil in H1 FY2024 vis-à-vis Rs. 11.5 crore in FY2023 (Rs. 55.7 crore during FY2021-FY2022). ICRA expects the company to maintain adequate asset quality, supported by improved underwriting. The share of borrowers with better profiles (CIBIL score >700) improved steadily to ~67% of the portfolio as of December 2023 (~68% as of March 2023) from ~41% as of March 2020. ICRA also 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 also improved over the last few years, with its net profitability[1] increasing to 3.3% in H1 FY2024 from 3.1% in FY2023 (2.3-2.5% during FY2018-FY2020). ICRA expects the profitability to be maintained at 3.3-3.5% over the near term.

VFSPL is currently focussed only on mortgage-backed lending, though it also plans to diversify into other secured loans going forward. Its assets under management (AUM) increased at a compound annual growth rate (CAGR) of 22% over the last five years. ICRA expects the company to maintain the AUM growth at a CAGR of 25-30% over the medium term. VFSPL continues to have regionally concentrated operations with the top 3 states accounting for 76% of its AUM as of December 2023. However, ICRA expects the concentration to reduce gradually over the medium term as the company expands.

VFSPL's capitalisation profile is comfortable, with its managed gearing declining to 2.0 times as of September 2023 from 2.9 times as of March 2023 on the back of the Rs. 327.9-crore equity infusion in the current fiscal. The company is expected to raise further capital over 2-3 years, which would support its long-term portfolio growth and keep the leverage under control.

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

Key rating drivers and their description

Credit strengths

Experience in small business loan segment – VFSPL, which commenced operations in 2010, was previously led by Mr. Brahmanand Hegde and Mr. Ramakrishna Nishtala. Following Warburg Pincus' acquisition of a majority stake in the company in Q1 FY2024, the promoters resigned from their positions in the company. VFSPL has appointed Mr. Avijit Saha as its Managing Director & Chief Executive Officer (MD & CEO). He has significant experience of more than 30 years in rural and inclusive banking. The company has a six-member board consisting of two nominee directors representing the private equity (PE) investor and three independent directors in addition to the MD & CEO. 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 99.2% as on December 31, 2023 from 57% as on March 31, 2016. Loans for housing purposes constituted ~24% of the portfolio.

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 2-3 years. Accordingly, the managed gearing improved to 2.0 times as of September 2023 from 2.9 times as of March 2023. Its capital-to-risk weighted assets ratio (CRAR) improved to 35.0% as of September 2023. The company is expected to raise further capital over 2-3 years, which would support its medium-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 and earnings profile – VFSPL's asset quality parameters have witnessed a steady improvement vis-à-vis the pandemic period. With the improvement in collections, the GS3 improved to 3.2% as of September 2023 from 3.8% as of March 2023. The standard restructured portfolio reduced to Rs. 9.2 crore as of September 2023, accounting for 0.3% of the portfolio (Rs. 15 crore as of March 2023), from Rs. 100.1 crore as of March 31, 2022. Further, the company has not undertaken any write-offs in the current fiscal as the impact of the pandemic was largely absorbed in the previous years (cumulative write-off of ~Rs. 106 crore during FY2021-FY2023).

VFSPL's client profile comprises self-employed borrowers engaged in small businesses such as trading, 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 the overall business activity levels and the macroeconomic outlook, making them vulnerable to income shocks. The company has, however, steadily increased its focus on borrowers with relatively better credit profiles {CIBIL score >700 accounted for ~67% of the portfolio as of December 2023 (~68% as of March 2023)}.

VFSPL's interest margins have remained range-bound over the last few years (FY2021-H1 FY2024). Operating expenses also remained stable at 4.9-5.3% (as a proportion of average managed assets; AMA) during this period. Combined with the decreasing provisioning and credit costs (2.2% of AMA in FY2021 vis-à-vis 1.0% in H1 FY2024), VFSPL's net profitability (return on managed assets; RoMA) has improved steadily, with its RoMA increasing to 3.3% in H1 FY2024 from 3.1% in FY2023 (2.9% in FY2021). Going forward, business yields are expected to improve as the company granularizes its portfolio and rationalised its lending rates for upto Rs.15 lakhs ticket size, which would support an expansion in its interest margins. ICRA expects the profitability to be maintained at 3.3-3.5% over the near term.

Credit challenges

Scale remains moderate, notwithstanding growth; regionally concentrated operations – VFSPL's AUM had increased steadily at a CAGR of 22% over the past five years. Nonetheless, its scale is moderate with AUM of Rs. 3,457 crore as of September 2023 (Rs. 3,133 crore as of March 2023). The company expects the AUM to increase at a CAGR of 25-30% over the medium term. As on December 31, 2023, VFSPL's portfolio was largely concentrated in Tamil Nadu (39%), Karnataka (23%), Andhra Pradesh (15%) and Madhya Pradesh (6%). While expansion to new states has improved its geographical diversity, the top 3 states continued to account for about 77% of its total portfolio as of December 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 tenure, LTV and ticket size– With the intent of retaining 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 tenures, lower yields and higher loan-to-value (LTV) ratios. The share of higher-tenor loans (>84 months) increased to 76% of the AUM as of December 2023 (74.4% in March 2023) from 15% as of March 2018, while the share of loans with LTV of more than 60% inched up to 32.2% as of December 2023 (29.4% as of March 2023) from 27.4% in March 2020 (20.6% in March 2018). The average LTV stood at ~50% as of December 2023. A sizeable portion of the loan book is targeted towards borrowers who are from the new to business loan segment.

The share of higher ticket size loans (>Rs. 25 lakh) moderated to 14.6% of the AUM as of December 2023 from 16.4% in March 2023 as the company focussed on granularising its loan book. However, the same remains above the FY2020 level. ICRA notes that further granularisation of the loan book would reduce loan concentration related risks, going forward. ICRA also 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 >700.

Liquidity position: Adequate

As on December 31, 2023, the company was carrying unencumbered on-book liquidity of Rs. 335.7 crore against scheduled debt obligations of Rs. 557.8 crore from January 2024 till June 2024. Collections due during this period amount to Rs. 619.2 crore. The asset-liability maturity (ALM) profile, as of September 2023, reflected positive cumulative mismatches across all buckets.

As on December 31, 2023, VFSPL had borrowings from around 35 lenders, comprising a mix of public sector banks (7), private sector banks (18), foreign banks (3) and non-banking financial institutions/financial institutions (NBFCs/FIs; 7). Its lender profile, as on December 31, 2023, was skewed towards funding from banks, constituting 87% of the total borrowings. NBFCs/FIs formed 7% of the borrowings, followed by non-convertible debentures (NCDs; 1%) and external commercial borrowings (ECBs; 5%).

Rating sensitivities

Positive factors – Material scale up of operations while maintaining a healthy asset quality and earnings profile.

Negative factors – Pressure on the ratings could arise on an increase in managed gearing beyond 4 times on a sustained basis. Deterioration in the asset quality indicators with the GS3 increasing beyond 4.5%, 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	Not Applicable

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 trading, 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 90.6% as of May 10, 2023. Warburg Pincus also infused capital of Rs. 300 crore in May 2023. VFSPL has appointed Mr. Avijit Saha as its Chief Executive Officer (CEO).

The company operates through 212 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 2023.

Key financial indicators

Vistaar Financial Services Pvt Ltd	FY2022	FY2023	H1FY2024#
Total income	433.6	538.9	325.6
Profit after tax	74.2	100.0	61.8
Total managed assets	2,936.8	3,566.6	3,925.8
Return on managed assets	2.8%	3.1%	3.3%
Managed gearing (times)	2.6	2.9	2.0
Gross stage 3	2.7%	3.8%*	3.2%*
CRAR	30.0%	26.4%	35.0%

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

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
					Feb 07, 2024	Aug 04, 2023	Nov 25, 2022	Jun 17, 2022	Jul 20, 2021	Jan 05, 2021 Jul 01, 2020 Jun 08, 2020
1	NCD	LT	69.00	69.00	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	NCD	LT	-	-	-	[ICRA]A (Positive); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
3	NCD	LT	-	-	-	[ICRA]A (Positive); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	NCD	LT	175.00	0.00	[ICRA]A+ (Stable)	-	-	-	-	-
5	Term loans	LT	1,461.00	1,199.76	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
6	Overdraft	ST	39.00	39.00	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-

LT – Long term, ST – Short term

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)
NA	**Non-convertible debentures (Unallocated)**	-	-	-	175.00	[ICRA]A+ (Stable)
NA	**Long-term fund based – Term loan**	Jan-04-2019 to Dec-29-2023	-	Feb-23-2024 to Sep-30-2030	1,199.76	[ICRA]A+ (Stable)
NA	**Long-term fund based – Term loan (unallocated)**	-	-	-	261.24	[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; *INE016P07146 was redeemed on August 2023. However, documents are awaited for ICRA to withdraw the rating on the instrument*

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

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Ramya G
+91 44 4596 4309
ramya.g@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches