CareEdge Global assigns Long Term Foreign Currency Rating of 'CareEdge B-/Stable' to the proposed External Commercial Borrowing Bonds of Kinara Capital Private Limited

USD 12 million External Commercial Borrowing Bonds	**CareEdge B-/Stable**
USD 18 million External Commercial Borrowing Bonds (Proposed)	**CareEdge B-/Stable**

CareEdge Global has assigned **'CareEdge B-/Stable'** to Kinara Capital Private Limited's (Kinara) proposed USD 30 million External Commercial Borrowing Bonds, to be issued in tranches starting at USD 12 million.

Rating Rationale

The rating is primarily driven by an experienced senior management team, board and a comfortable capitalisation and liquidity profile. These credit strengths are partially offset by weak asset quality, low profitability with a concentrated resource profile.

Key Rating Drivers

Strengths

Experienced senior management team & board

Kinara was founded by Ms Hardika Shah, CEO who is supported by a seasoned management team with extensive experience in the finance industry. Ms Shah herself brings over 20 years of management consulting experience across sectors, including financial services, insurance, and technology, among others.

The management team is further supported by an experienced and well-diversified board of directors. The board consists of 13 directors, including seven nominee directors, with two from Nuveen Global (largest shareholder; 23.9% stake as on September 30, 2024), one each from Triple Jump, Gaja Capital, Gawa Capital, Patamar Capital and British International Investment (BII), and four independent directors. It is also supported by investors like the Michael and Susan Dell Foundation.

Comfortable liquidity and capitalisation level

Kinara maintains a comfortable liquidity position, with adequate cash reserves to meet its debt obligations. The company adheres to a liquidity policy that requires holding liquid assets equivalent to three months of total outflows, including operating expenses. As of September 30, 2024, Kinara held Rs 641 crore in liquidity, comprising of cash, bank balances, and fixed deposits without any lien mark.

Kinara also has a comfortable capitalisation profile, with an overall capital adequacy ratio of 29.2% as of September 30, 2024. To support its growth plans, the company expects to raise further equity in the current financial year.

From FY18 to FY23, Kinara has consistently raised equity totaling Rs 598 crore both from new and existing investors as needed. These regular infusions, along with internal accruals, increased Kinara's tangible net worth to Rs 728 crore (~USD 87 mn[1]) as of March 31, 2024. However, due to reported losses in H1FY25, the net worth declined to Rs 685 crore as of September 2024.

CareEdge Global notes that, with its planned growth trajectory, the company will maintain a buffer of approximately 5-10% above the regulatory capitalisation requirements (currently at 15%), while keeping its AUM/Networth ratio within the range of 5 to 5.5x over the medium term.

Weaknesses

Weak profitability with the company reporting losses in H1FY25

In H1FY25, Kinara reported a loss of Rs 37 crore due to increased stress in the unsecured loan portfolio across various asset classes. In response, Kinara tightened its credit policy by reducing the ticket size of unsecured loans and capping the loan amount in certain geographies where higher delinquencies were observed. This led to a decline in disbursements, impacting profitability. However, in FY24, Kinara reported a return on assets (RoA) of 2.2%, slightly improving from 2.1% in FY23. This improvement was driven by higher net interest margins (NIMs) of 12.4% (up from 10.2% in FY23) and income from de-recognition of assets for direct assignment (DA) transactions and co-lending which stood at Rs 89 crore for FY24.

However, income from the de-recognition of assets significantly declined to just Rs 2 crore in H1FY25 which led to losses in that period. Credit cost remained high at 7.5% in H1FY25 due to deterioration in asset quality and increased write-offs totaling Rs 72 crore.

CareEdge Global expects that Kinara's profitability will further deteriorate in the current financial year due to ongoing stress in its portfolio, which may result in higher write-offs.

[1] 1 USD=84 Rupees

Concentrated resource profile leading to a relatively higher cost of borrowing
Kinara's AUM grew by 26% on a year-on-year, reaching Rs 3,142 crore as on March 31, 2024, up from Rs 2,487 crore as on March 31, 2023. With this growth in AUM, borrowings also increased but remain concentrated. Kinara continues to rely heavily on non-banking financial companies (NBFCs) for its debt requirements, which come at relatively high cost compared to other sources of financing, thereby adversely impacting the company's profitability. As of September 30, 2024, Kinara's average borrowing cost stood at 14.4%, with borrowings from banks contributing only 13% of total borrowings.

Kinara is working to optimise its borrowing profile by exploring alternative financing options, including fully hedged international debt issuances. The reduction in NBFC borrowings is expected to be gradual, as a significant portion of the current borrowings are from NBFCs.

Weak asset quality
Kinara's asset quality remained weak, with GNPA and NNPA elevated at 5.6% and 2.9% as of March 31, 2024, compared to 5.6% and 4.6%, respectively, as of March 31, 2023. The company wrote off a portfolio amounting to Rs 123 crore in FY24, up from Rs 74 crore in FY23.

To address the decline in asset quality, the company tightened its credit policy this year, resulting in higher rejection rates and reduced disbursements. Additionally, Kinara implemented several measures across the organisation to control asset quality, such as capping loan amounts in certain geographies with higher delinquency rates. Consequently, its AUM marginally declined to Rs 3,125 crore as of September 30, 2024, from Rs 3,142 crore as of March 31, 2024. However, asset quality continued to deteriorate, with GNPA and NNPA rising to 8.6% and 5.0%, respectively, as of September 30, 2024, despite a write-off totaling Rs 72 crore in H1FY25.

Nevertheless, with around one-third of its portfolio covered by various guarantees from state governments and other institutions, asset quality receives some support. Portfolio coverage under guaranteed schemes increased from 11% as of March 31, 2023, to 31% as of September 30, 2024, with total coverage under schemes rising to Rs 968 crore as of September 30, 2024, from Rs 272 crore as of March 31, 2023.

Going forward, with the steps taken by management to arrest the decline in asset quality and the growth in its loan portfolio, asset quality is expected to show some improvement in the medium term.

Liquidity

Kinara's liquidity position is comfortable, with no negative cumulative mismatches reported in the asset-liability mismatch statement as of September 30, 2024. Additionally, the company holds liquidity of around Rs 641 crore in the form of cash and bank balance, and fixed deposits without lien mark as of September 30, 2024. This amount is sufficient to meet the upcoming near-term debt maturities over the next six months.

Outlook: Stable

The stable rating outlook reflects CareEdge Global's expectation that Kinara will maintain moderate capitalisation levels and improve asset quality while sustaining moderate growth in its scale of operations over the medium term. Furthermore, Kinara's growth is expected to be consistently supported by its promoters and other key investors.

Rating Sensitivities

Upward factors

- Ability to significantly increase its scale of operations in a profitable manner with Return on Assets (ROA) above 3% on a sustained basis
- Significant improvement in asset quality

Downward factors

- Continuation of weak asset quality and moderation in its capitalization profile
- Increase in asset under management (AUM) to net worth ratio above 6 times on a sustained basis

Environmental, Social and Governance (ESG) considerations

CareEdge Global notes that Kinara primarily lends to businesses operating in semi-urban areas, actively promoting sustainable practices among its borrowers. This includes encouraging the efficient use of natural resources such as water and raw materials, and fostering initiatives for recycling and reuse, aligning with broader environmental sustainability goals.

From a social perspective, the company addresses critical social risks by focusing on low-ticket MSME lending. This approach enhances credit accessibility for underserved segments, including women entrepreneurs and businesses in rural areas, thereby contributing to financial inclusion and socioeconomic development.

On the governance front, while the company demonstrates a reasonable commitment to governance practices, further improvements in board structure and practices could enhance resilience and stakeholder confidence.

About the company

Kinara Capital Private Limited (erstwhile Visage Holdings and Finance Private Limited) was incorporated in New Delhi in 1996 and registered as an NBFC and obtained the certificate of registration from the Reserve Bank of India (RBI) on March 23, 2000. Kinara was taken over by the current promoter, Ms Hardika Shah, in 2011, and subsequently, the registered office moved to Bengaluru in 2013. It obtained a fresh certificate of registration from RBI on August 27, 2013. The company provides collateral-free loans with an average ticket size of Rs 7.5 lakhs to micro and small businesses in manufacturing, trading and services, for asset purchase, business development or working capital need, at an average lending rate of 28% for a tenure of 12-60 months.

Kinara had a total branch base of 124 and AUM of Rs 3,125 crore as of September 30, 2024, out of which around 32% is concentrated in Tamil Nadu. As on September 30, 2024, on a fully dilutive basis, 8.9% stake is held by the promoter, Ms.Hardika Shah, including compulsory convertible debentures (CCDs). Other major shareholders were Michael and Susan Dell Foundation, Patamar Capital, Gaja Capital and Gawa Capital.

Solicitation Status

These ratings are solicited. The management has provided information and meetings to the CareEdge Global analytical team for the rating.

Rating History

Instrument	Type	Rating	Date
External Commercial Borrowings Bond	Long Term Foreign Currency (Solicited)	CareEdge B-/Stable	December 27, 2024

Criteria Applied

CareEdge Global's Rating Methodology for Financial Institutions

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