

Rating Rationale

September 08, 2022 | Mumbai

Keertana Finserv Private Limited

'CRISIL BBB/Stable' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.500 Crore
Long Term Rating	CRISIL BBB/Stable (Assigned)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB/Stable**' rating to the long-term bank loan facility of Keertana Finserv Private Limited (Keertana). The rating factors in the company's adequate capitalisation profile and the extensive experience of the promoter in the financial services industry. These strengths are partially offset by nascent stage of operations and moderate earnings profile, albeit that the company has reported profitability from the first month of operations itself.

Keertana, (formerly known as Rajshree Tracom Private Limited) was acquired by Ms. Padmaja Reddy with her friends and family in March 2022. The gold loan and MSME business was being run by the promoter through Spandana Mutual Benefit Trust (SMBT) and Spandana Rural and Urban Development Organisation (SRUDO) respectively. In March 2022, Keertana acquired Rs 190 crore worth of gold loans from SMBT and Rs 15 crore of MSME business from SRUDO. The business transfer was done through slump sale of entire business which include transfer of portfolio, employees, branches, asset and liabilities. Post acquiring business from SMBT and SRUDO, company has grown its asset under management (AUM) to Rs 292 crore as of July 31, 2022 with 92% of the AUM being gold loans.

The company has adequate capitalisation with networth of Rs 114 crore as of June 30, 2022. Additionally, the promoters and family had extended Rs 152 crore as unsecured loans to fund the business operations. The promoter loans has reduced in July 2022 as the company managed to raise external funding from Banks and NBFCs and stood at Rs 70 crore as on July 31, 2022. In the short span of four months till July 2022, the company has successfully mobilised borrowings from Banks and other NBFCs and it stood at Rs 151 crore as on July 31, 2022. The company's gearing ratio was also comfortable at 2 times as of July 2022. On a steady-state basis, the company plans to maintain gearing at around 4 times.

The company has aggressive plans to grow the loan book to Rs 800 crore by March 2023 and Rs 1500 crore by March 2024. This will necessitate raising additional equity capital of around Rs 150 crore to maintain steady-state gearing levels. CRISIL Ratings believes that the promoters have the resources and financial flexibility to fund the same comfortably as evidenced by the unsecured loans infused during initial months of operations. Further, there is flexibility from the 15.22% stake in Spandana Sphoorty Financial Ltd (SSFL) held by Ms. Padmaja Reddy and family which was worth around Rs 600 crore (as per market price on August 31, 2022).

The business operations are nascent having commenced in October 2021 under SMBT. The company has 98% of the portfolio in Andhra Pradesh and intends to focus on growth in Andhra Pradesh over the next two years along with gradual growth in the neighbouring states – Tamil Nadu, Telangana and Karnataka. As on July 31, 2022, company has 99 operational branches while around 45 more branches are in final stages of being operationalised.

Analytical Approach

CRISIL Ratings has evaluated the standalone business and financial risk profile of Keertana Finserv Private Limited.

Key Rating Drivers & Detailed Description

Strengths:

Adequate capitalisation

Keertana's capital position is adequate in relations to the scale of operations. As of June 30, 2022, the company has networth of Rs 114.4 crore (Rs 115.4 crore in July 2022) and comfortable gearing at 2.2 times (1.92 times as on July 2022). Post-acquisition of the company in March 2022, the promoters, and their family infused Rs 109.2 crore (98.2% stake as of June 2022). Further, they have infused additional Rs 10.8 cr through a rights issuance in August 2022. While the current gearing is low, it is expected to increase going forward as the company is targeting an AUM of Rs 800 crore by March 2023 and further Rs 1500 crore by March 2024. This will necessitate raising additional equity capital of around Rs 150 crore to maintain steady-state gearing levels. CRISIL Ratings believes that the promoters have the resources and financial flexibility to fund the same comfortably as evidenced by the unsecured loans infused during initial months of operations. Further, there is flexibility from the 15.22% stake in Spandana Sphoorty Financial Ltd (SSFL) held by Ms. Padmaja Reddy and family which was worth around Rs 600 crore (as per market price on August 31, 2022). Post the IPO in August 2019, there was a lock-in period for the promoters for selling the shares in SSFL. However, the restriction on selling the shares has expired in August 2022 and the promoters can sell their shares in SSFL, if required, and infuse the same in Keertana. Consequently,

CRISIL Ratings believes that Keertana will remain adequately capitalised with gearing remaining below 4 times on steady state basis.

Extensive experience of the promoters and the management team

Keertana is promoted by Ms. Padmaja Reddy who has over 24 years of experience in social development and financial services industry. The promoter founded SSFL in 1998 which has grown to be the second largest NBFC-MFI (non-banking financial company/microfinance institution) in the country based on microfinance loan portfolio and the third-largest in terms of consolidated AUM (including non-microfinance loan portfolio). Besides the promoter's robust understanding of financial product requirements for the customers in the microfinance space, the company also benefits from the management team which comprises professionals with experience of over a decade in the gold loan field. The leadership team has rich knowledge of the geographies- Andhra Pradesh and Telangana where the company is current present and planning to expand its portfolio.

Weakness:

Nascent stage of operations

As of July 31, 2022, the AUM stood at Rs 292 crore as compared to Rs 201 crore as on March 31, 2022. The asset under management comprises a wide range of asset classes including gold loans (92.1%), group loans (5.3%), business loans and LAP (2.5%) and consumer loans (0.1%). Currently the secured portion accounts for 92.9% of the overall portfolio. Over the medium term, the company is planning to have gold loan and MSME book mix of 75:25%, The MSME book was small at just Rs 4.8 crore as on July 2022 and the growth over next 2-3 years will be slow and calibrated. Hence, the share of gold loans is likely to remain high at over 85% in the current fiscal.

The business operations are nascent having commenced in October 2021 under SMBT. The company has 98% of the portfolio in Andhra Pradesh and intends to continue its focus on expansion in Andhra Pradesh region over the next two years while growing gradually in neighbouring states – Tamil Nadu, Telangana and Karnataka. Gold loan business typically faces higher operational risks linked to staff fraud, loan-to-value (LTV) impact due to gold price fluctuations and timely auctions. Keertana has limited vintage of operations and hence the company's ability to tackle these potential risks will only be evidenced with scale up of operations over a period of time.

Moderate earnings profile

In terms of profitability, Keertana reported a profit of Rs 2.5 crore in Q1 2023 with return on managed assets of 3.6% (annualised). CRISIL Ratings notes that this was supported by lower borrowings during the initial months with the loan book being largely networth funded. Nevertheless, the gold loan business inherently benefits from higher interest spreads and lower credit costs. The asset side risk is comparatively low given the segment is secured by gold which is liquid and is in the lender's possession and can be auctioned quickly. As the company's operations have limited vintage, track record of timely auctions and limiting credit costs remains to be seen.

As the company is in the growth phase, operating expenses remained high and stood at 7.2% (as a % of managed assets) in Q1 2023. The operating expenses are expected to remain high as the company focuses on increasing their branch network during the initial 1-2 years. Going forward, Keertana's ability to scale up its portfolio while improving profitability and maintaining asset quality will remain key monitorable.

Liquidity: Adequate

Keertana's asset-liability maturity profile was comfortable as on July 31, 2022, with positive mismatches across buckets up to 1 year. As on July 31, 2022, the company had liquidity of Rs 27.56 crore (including cash and cash equivalent and cash credit and working capital loan). Against this, total debt obligation (including operating expense) was around Rs 16.1 crore until September 2022. This represents liquidity cover (assuming nil collections) of 1.7 times for next two months. Liquidity is further supported by commitment of support by promoters at the time of exigency.

Outlook: Stable

CRISIL Ratings believes Keertana will remain adequately capitalized over the medium term with timely support from promoters.

Rating Sensitivity factors

Upward factors

- Increase in scale of operations while maintaining steady-state gearing at below 4 times
- Increase in earnings leading to improvement in return on managed assets over 2.5% on a sustainable basis
- Track record of raising external borrowings

Downward factors

- Moderation in capitalisation metrics with a significant increase in gearing beyond 5 times while scaling up the portfolio.
- Any adverse movement in operating or credit costs and its consequent impact on earnings profile

About the Company

Keertana Finserv Private Limited (formerly known as Rajshree Tracom Private Limited) ("Keertana") was incorporated as a private limited company in 1996 in Calcutta. The company remained a closely held company for twenty years till it was acquired and renamed by Ms. Padmaja Reddy with her friends and family in March 2022. The company acquired gold loans business from Spandana Mutual Benefit Trust (SMBT) and MSME business from Spandana Rural and Urban development Organisation (SRUDO).

The company largely focuses on gold loans and MSME loans targeting the low income and middle-income households in rural areas. As of July 31, 2022, company has 144 branches spread across 19 districts. 99 Branches are active and the

remaining 45 Branches have branch furnishing work in progress. The company has an outstanding AUM of Rs 292 crore with gold loans accounting for 92% of the portfolio.

Key Financial Indicators

	Unit	Q1 2023*	Mar-2022	Mar-2021	Mar-2020
Total managed assets	Rs crore	373.2	2.8	2.7	3.2
Total income	Rs crore	13.5	0.3	0.3	0.4
PAT	Rs crore	2.5	0.2	0.06	0.11
Return on managed assets	%	3.6	6.9	2.0	3.9
GNPA (90+ dpd)	%	0.01	0	0	0
Adjusted gearing (including off-book)	Times	2.2	-	-	-

*Provisional

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	500	NA	CRISIL BBB/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	500.0	CRISIL BBB/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	500	Not Applicable	CRISIL BBB/Stable

This Annexure has been updated on 08-Sep-2022 in line with the lender-wise facility details as on 08-Sep-2022 received from the rated entity.

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Bank Loan Ratings - process, scale and default recognition

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