

August 26, 2022

Keertana Finserv Private Limited: [ICRA]BBB- (Stable)/[ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based term loans	40.00	[ICRA]BBB- (Stable); assigned
Short term – Fund-based working capital demand loans	20.00	[ICRA]A3; assigned
Long-term/Short-term fund based – Unallocated	440.00	[ICRA]BBB- (Stable)/[ICRA]A3; assigned
Total	500.00	

*Instrument details are provided in Annexure I

Rationale

The rating action factors in the long-standing experience of the promoters of Keertana Finserv Private Limited¹ (Keertana) in the retail lending business. Keertana has been promoted by Ms. Padmaja Reddy, who is the founder, promoter and erstwhile Managing Director of Spandana Sphoorthy Financial Limited {SSFL; non-banking financial company-microfinance institution (NBFC-MFI)}. She has vast experience in the retail lending business having handled microfinance, gold loans, loan against property (LAP), tractor loans, agriculture loans and unsecured business loans (micro, small and medium enterprise; MSME) via SSFL and Criss Financials Limited. The promoter's family infused capital of Rs. 109.2 crore (98.2% stake as of June 2022) and extended unsecured loans to the extent of Rs. 78.0 crore as of June 2022 (Rs. 38.7 crore as of July 2022). ICRA considers the company's capitalisation profile to be sufficient for the near term and expect the promoters to provide further funding support via capital infusions and unsecured loans whenever required.

The senior management team includes personnel with adequate experience gained from working at SSFL before joining Keertana. The company acquired the gold loan business from Spandana Mutual Benefit Trust (SMBT; Rs. 191 crore) and the MSME business from Spandana Rural and Urban Development Organization (SRUDO; Rs. 14 crore) as per a business transfer agreement dated April 04, 2022.

The ratings also take into consideration the moderate scale and geographically concentrated operations with assets under management (AUM) of Rs. 269 crore as of June 2022. Gold loans contributed 93% to the AUM while joint liability group loans (JLG), LAP and MSME accounted for the balance. Portfolio growth slowed down in June 2022 due to tepid disbursements, notwithstanding the robust branch expansion. Disbursements were constrained as the majority of the sanctions (Rs. 74 crore) were received at the end of the month. However, Keertana expects a loan portfolio of Rs. 800 crore as of March 2023 and Rs. 2,500 crore as of March 2025. The company had 144 branches as of July 31, 2022, of which 98 are currently operating with the rest expected to commence operations shortly. It expects to increase the branch network to 200 by March 2023 and 500 by March 2025. The portfolio mix is expected to be 75:25 (gold loan: non-gold loan) in the medium term due to the higher growth expectation from non-gold loans. The ratings also factor in the limited vintage of the company's operations. Accordingly, Keertana's ability to maintain a healthy asset quality and earnings performance on a sustained basis remains to be seen.

As on June 30, 2022, Keertana's borrowing profile consisted of loans from promoters and related entities (61%) and term loans from NBFCs (39%). Due to recent sanctions and repayment of loans from Promoters and related entities, external borrowings share increased to 68% as on July 31, 2022. Going forward, the share of promoters and related entities is expected to further decline as the company mobilises external borrowings from banks and other financiers. Keertana received sanctions of Rs. 169 crore in May-July 2022 (including Rs. 84 crore in June 2022 and Rs. 75 crore in July 2022), despite the fact that it commenced

¹ Name changed with effect from August 01, 2022

operations in April 2022. However, ICRA notes that the company's ability to diversify and mobilise adequate funding at competitive rates will be a key monitorable.

Key rating drivers and their description

Credit strengths

Long-standing experience of promoters in retail lending business – Keertana is a non-deposit taking NBFC incorporated in February 1996. It received its NBFC licence in 2001 from the Reserve Bank of India (RBI). The company was dormant with no business till the current promoters acquired it on March 31, 2022. Followed by RBI approval for a change in management and control, the current promoters purchased the entire share of the previous promoters. The company is currently managed by Ms. Reddy, founder, promoter and erstwhile Managing Director of SSFL. She has vast experience in handling microfinance, gold loans, tractor loans, agriculture loans, LAP and MSME via SSFL and Criss Financials Limited. The promoter's family infused capital of Rs. 109.2 crore in April 2022 (98.2% stake as of June 2022) and extended unsecured loans of Rs. 78.0 crore as of June 30, 2022 (Rs. 38.7 crore as of July 31, 2022). ICRA expects support via capital infusions and unsecured loans to continue, going forward as well, as and when required. The company's senior management team comprises personnel with adequate experience and includes a part of Ms. Reddy's team at SSFL.

Keertana acquired the gold loan business from SMBT (Rs. 191 crore) and the MSME business from SRUDO (Rs. 14 crore) as per a business transfer agreement dated April 04, 2022.

Capitalisation profile sufficient for near term; timely capital infusions critical for medium-term growth plans – Keertana's net worth, gearing and capital adequacy ratio were Rs. 114.4 crore, 2.2 times and 39.2% as of June 2022, supported by the capital infusion of Rs. 109.2 crore made by the promoters in April 2022. The company expects to achieve a portfolio of Rs. 800 crore by March 2023 and Rs. 2,500 crore by March 2025. ICRA does not expect the company's current capitalisation and internal generation of funds to be adequate to meet the envisaged portfolio growth for the next three years. According to ICRA, Keertana would require further capital infusion of Rs. 250-300 crore, which could be done by the promoters by liquidating their holdings in SSFL. Keertana intends to keep the leverage at around 4-5 times in the medium term.

Ms. Reddy and Mr. Vijay Reddy hold 14.52% and 0.70%, respectively, of SSFL's shares as of June 30, 2022. Following the initial public offering (IPO) in 2019, the promoters were restricted from selling their shares on account of the post-IPO lock-in. These restrictions are expired currently, and the promoters could liquidate² the holdings in SSFL gradually. ICRA expects the promoters to utilise the proceeds from the sale of the shares to shore up Keertana's capitalisation position in a timely manner so that it can achieve its medium-term growth plans.

Credit challenges

Moderate scale and geographically concentrated operations; however, strong branch expansion to support AUM growth – Keertana commenced operations in April 2022 with the takeover of assets totalling Rs. 205 crore from SMBT and SRUDO. With disbursements of Rs. 228.3 crore in Q1 FY2023, it was able to achieve an AUM of Rs. 269 crore as of June 2022. Gold loans contributed 93% to the AUM while other segments, including JLG, LAP and MSME, accounted for the rest. The company recorded strong disbursements in April and May 2022. However, the same slowed down to an extent in June 2022 due to funding constraints as the majority of the sanctions (Rs. 74 crore) are received at the end of the month.

However, the company has continued with its robust pace of branch expansion and expects to achieve a loan portfolio of Rs. 800 crore as of March 2023 and Rs. 2,500 crore as of March 2025. The company had 144 branches as of July 2022, of which 98 were operating with the rest expected to commence operations shortly. It expects to increase the branch network to 200 by

² Quarterly block outs will apply because they are still a part of the promoter group

March 2023 and 500 by March 2025. The portfolio mix between gold loan and other segments is expected to be 75:25 (gold loan: non-gold loan) over the medium term, aided by higher growth expectation from non-gold loans.

The operations are geographically concentrated currently, with Andhra Pradesh contributing 99% to the AUM. However, the company plans to diversify into Telangana, Tamil Nadu and Karnataka in the near term. It has around 23,399 borrowers with a rural and urban mix of 85:15%.

Limited business vintage; sustained asset quality and earnings³ performance to be seen – Keertana had a 90+ days past due (dpd) of 0.01% as of June 2022, resulting in limited credit costs. The net interest margin for Q1 FY2023 was healthy at 11.7% due to low leverage. The same is expected to moderate as the portfolio growth, going forward, would be largely supported by incremental borrowings. Further, ICRA expects the yields to be under pressure over the medium term as competition intensifies with many players entering the gold loan segment. However, to offset the same, the company is extending JLGs, LAP and MSME at better yields.

Operating expenses for Q1 FY2023 were high at 7.2% on account of robust branch expansion. The company's ability to generate operational efficiency and reduce its operating cost-to-income ratio, going forward, would be key for generating a sustainable earnings profile. However, the net profitability {profit after tax (PAT)/average managed assets (AMA)} stood at 3.3% in Q1 FY2023, supported by higher net interest margins and limited credit costs, notwithstanding higher operating expenses. Going forward, Keertana's ability to maintain a healthy performance in its asset quality and earnings indicators on a sustained basis would be a key monitorable, given that the business vintage is very limited as of now.

Diversification of funding profile a key monitorable – As on June 30, 2022, Keertana's borrowing profile consisted of promoters and related entities (61%) and term loans from NBFCs (39%). Due to sanctions of Rs.75 crore received in July 2022, and repayment of loans from Promoters and related entities, external borrowings share increased to 68% as on July 31, 2022. Going forward, the share of promoters and related entities is expected to further decline, as the company attracts external borrowings from banks and other financiers. Keertana received sanctions of Rs. 169 crore in May-July 2022 (including Rs. 84 crore in June 2022 and Rs. 75 crore in July 2022), despite the fact it commenced operations in April 2022. However, ICRA notes that the company is yet to demonstrate its financial flexibility. The ability to mobilise adequate funds at competitive rates will be a key monitorable.

Liquidity position: Adequate

Keertana has adequate liquidity with unencumbered cash and cash equivalents of Rs. 80 crore as on June 30, 2022 (Rs. 74-crore sanctions were received during June 27, 2022 to June 30, 2022). Further sanctions of Rs. 75 crore were received in July 2022. The company has repayments of Rs. 36.4 crore due in the next six months (including interest of Rs. 14.9 crore), which could be covered by the current liquidity buffers as the promoter loans require bullet repayment in April-June 2027. No cumulative mismatches were observed in the Asset Liability Maturity (ALM) profile as on June 30, 2022, as most of the loans extended by Keertana are short term in nature. ICRA notes that timely capital infusions and the ability to obtain external borrowings at competitive rates will be key monitorables in terms of the liquidity profile.

Rating sensitivities

Positive factors – ICRA could change the outlook to Positive or upgrade the rating if the company scales up its portfolio, while maintaining a healthy earnings profile and keeping its asset quality under control.

³ Ratios for Q1 FY2023 are as per ICRA's calculations; adjustments have been made taking into consideration the transfer of assets from group entities to Keertana during the quarter. If the ratios are computed based on reported financial statements, the net interest margin, operating expenses/AMA and PAT/AMA would have been 18.6%, 11.5% and 5.3% respectively

Negative factors – ICRA could change the outlook to Negative or downgrade the ratings if the company is unable to maintain stable asset quality or operational efficiency, which could adversely impact its earnings profile. A stretched capitalisation profile could also adversely impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of Keertana

About the company

Keertana Finserv Private Limited (Keertana) is a non-deposit taking NBFC. It was incorporated in February 1996 as Rajshree Tracom Pvt Ltd and received its NBFC licence in 2001 from the RBI. The company was dormant with no business till the current promoters acquired it at the end of March 2022. Following the approval from the RBI for a change in management and control, the current promoters purchased all the shares of the erstwhile promoters. The company is currently managed by Ms. Padmaja Reddy, the erstwhile Managing Director of Spandana Sphoorthy Financial Limited (SSFL; NBFC-MFI). Keertana acquired its gold loan business from SMBT (Rs. 191 crore) and the MSME business from SRUDO (Rs. 14 crore) as per a business transfer agreement dated April 04, 2022.

Keertana's AUM stood at Rs. 269 crore as of June 2022. Gold loans contributed 93% to the AUM while JLG, LAP and MSME accounted for the rest. The company had 144 branches as of June 30, 2022, of which 85 are operating. Keertana reported a net profit of Rs. 2.5 crore on a managed asset base of Rs. 373.2 crore in Q1 FY2023 compared with a net profit of Rs. 0.2 crore on a managed asset base of Rs. 2.8 crore in FY2022.

Key financial indicators (audited)

Keertana – Standalone	FY2021	FY2022	Q1 FY2023 (P)
Total income	0.3	0.3	13.5
Profit after tax	0.1	0.2	2.5
Net worth	2.5	2.7	114.4
Loan book	2.1	1.9	268.9
Total managed assets	2.7	2.8	373.2
Return on managed assets	5.1%	6.9%	5.3% (3.3%#)
Return on net worth	5.4%	7.2%	16.9% (11.8%#)
Managed gearing (times)	0.0	0.0	2.2
Gross stage 3	0.0%	0.0%	0.0%
Net stage 3	0.0%	0.0%	0.0%
Solvency (Net stage 3/Net worth)	0.0%	0.0%	0.0%
CRAR	NA	144.5%	39.2%

Source: Company, ICRA Research; Amount in Rs. Crore; P – Provisional

As per ICRA's calculations; adjustments have been made taking into consideration the transfer of assets from group entities to Keertana during the quarter

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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	
					Aug 26, 2022				
1	Long term – Fund-based term loans	Long term	40.00	40.00	[ICRA]BBB-(Stable)	-	-	-	
2	Short term – Fund-based working capital demand loans	Short term	20.00	20.00	[ICRA]A3	-	-	-	
3	Long-term/Short-term fund based – Unallocated	Long term/Short term	440.00	0.00	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term – Fund-based term loans	Simple
Short term – Fund-based working capital demand loans	Simple
Long-term/Short-term fund based – Unallocated	Not Applicable

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument	Date of issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
					(Rs. crore)	
NA	Long term – Fund-based term loans	Jul-20-22	13.00%	Jul-19-24	40.00	[ICRA]BBB-(Stable)
NA	Short term – Fund-based working capital demand loans	Jul-25-22	13.00%	Jul-24-23	20.00	[ICRA]A3
NA	Long-term/Short-term fund based – Unallocated	-	-	-	440.00	[ICRA]BBB-(Stable)/ [ICRA]A3

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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