

July 31, 2023

Keertana Finserv Private Limited: Ratings upgraded to [ICRA]BBB (Stable)/[ICRA]A3+

Summary of rating action

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

*Instrument details are provided in Annexure I

Rationale

The ratings upgrade factors in the augmentation of Keertana Finserv Private Limited's (Keertana) capital profile, which has supported the increase in its scale of operations. The company received capital of Rs. 149.2 crore¹ in FY2023 and Rs. 38.0 crore in Q1 FY2024 from the promoters. The promoters plan to infuse further capital in the near term in view of the company's steep growth plans. Keertana's assets under management (AUM) increased to Rs. 609.2 crore as of March 2023 and further to Rs. 761.7 crore as of June 2023 from Rs. 268.9 crore as of June 2022. It has a presence in segments such as gold loans, joint liability group (JLG; group) loans, micro, small and medium enterprise (MSME) loans and loan against property (LAP). However, the operations are geographically concentrated at present, with Andhra Pradesh contributing 94% to the AUM as of June 2023.

ICRA notes the healthy net profitability {profit after tax (PAT)/average managed assets (AMA)} reported by the company (4.7% in FY2023 and 6.0% in Q1 FY2024), supported by the higher net interest margin and limited credit costs. Going forward, Keertana's ability to sustain healthy asset quality and earnings, as it expands, and increase the share of the non-gold loan businesses remains to be seen. ICRA notes that while the share of loans from promoters and related entities has declined from 61% as of June 2022 to 14% as of June 2023, Keertana's borrowing profile is skewed towards funding from non-banking financial companies (NBFCs) contributing to 46% as of June 2023 (39% as of June 2022). The company during the last 12-15 months has been able to raise borrowings from multiple sources including a few banks, non-convertible debentures (NCD) and securitisation. Nevertheless, it would be crucial for the company to improve its borrowing profile by increasing the share of banks, which could support the company's steep growth plans and lower its cost of borrowing.

The ratings continue to factor in the long-standing experience of the promoter in the retail lending business. Keertana has been promoted by Ms. Padmaja Reddy, who is the founder, promoter and erstwhile Managing Director (MD) of Spandana Sphoorthy Financial Limited {SSFL; non-banking financial company-microfinance institution (NBFC-MFI)}. It is, however, crucial for the company to have a stable senior management team, with the timely augmentation of the same, in view of its growth plans.

¹ Rs. 109.2 crore in April 2022, Rs. 10 crore in September 2022 and Rs. 30 crore in November 2022

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 1996. It received its NBFC licence from the Reserve Bank of India (RBI) in 2001. The company did not have any operations till the current promoters acquired it on March 31, 2022. Ms. Padmaja Reddy is the founder and ex-MD of SSFL; she has vast experience in handling microfinance, gold loans, agriculture and related loans, LAP and MSME loans via SSFL and Criss Financials Limited. The current team comprises personnel with adequate experience, though there has been sizeable attrition at the senior management level in the last one year. It would be crucial for the company to have a stable senior management team, with timely augmentation of the same in view of its growth plans.

Capitalisation profile sufficient for near term; timely capital infusions critical for medium-term growth plans – Keertana's capitalisation profile, with a gearing of 2.8 times and a capital adequacy ratio of 27.3% as of June 2023, continues to be supported by regular capital infusions from the promoters. It had received incremental capital of Rs. 149.2 crore and Rs. 38 crore from its promoters in FY2023 and Q1 FY2024, respectively. Given the steep growth plans, ICRA expects that Keertana would require incremental capital infusion of Rs. 250-300 crore over the next two years (of which Rs. 110 crore is planned to be infused in the near term), which could be provided by the promoters. The promoters hold a stake of 14.1% in SSFL as of June 30, 2023 (valued at ~Rs. 721 crore as of June 30, 2023?) and have adequate financial flexibility to infuse capital to support growth. Keertana is expected to keep its leverage below 4 times in the medium term.

Healthy asset quality and earnings profile²; however, sustainability of the same over the medium term would be crucial – Keertana maintained healthy asset quality, recording 90+ days past due (dpd) of 0.01% as of March 2023 (0.01% as of June 2023), which resulted in limited credit costs during this period. The net interest margin was healthy at 12.4% in FY2023 and 14.0% in Q1 FY2024, given the low leverage. ICRA expects the blended yields, and consequently the interest margins, to remain strong on the back of the increasing exposure towards high-yielding segments, i.e. group loans, LAP and MSME.

The operating expenses ratio (Operating expenses/Average Managed Assets) for FY2023 and Q1 FY2024 stood at 6.2% and 5.4%, respectively, on account of branch expansion. The company has slowed down the gold loan branches and is focusing on group loan/MSME branches, which can be maintained at a comparatively lower operating cost. Keertana's ability to improve its operational efficiency and reduce its operating cost-to-income ratio would be key for sustaining its healthy earnings profile going forward. Overall, the net profitability stood at 4.7% in FY2023 and 6.0% in Q1 FY2024, supported by improved net interest margin and limited credit costs. Going forward, Keertana's ability to maintain the healthy performance of its asset quality on a sustained basis would be a key monitorable, given its limited business vintage.

Credit challenges

Steep growth plans; geographically concentrated operations – Keertana commenced operations in April 2022 with the takeover of assets totalling Rs. 205 crore from Spandana Mutual Benefit Trust (SMBT) and Spandana Rural and Urban Development Organization (SRUDO). Its AUM increased to Rs. 609.2 crore as of March 2023 and further to Rs. 761.7 crore as of June 2023 from Rs. 268.9 crore as of June 2022. The company had 248 branches as of June 2023, of which 225 were operating with the rest expected to commence operations shortly. Gold loans contributed 55% to the AUM as of June 2023 (63% as of March 2023), while group loans, MSME and LAP accounted for 30%, 10% and 5%, respectively.

Keertana is planning a robust pace of branch expansion and expects to achieve a loan portfolio of Rs. 2,500 crore as of March 2025. It expects to increase its branch network to 400 by March 2025 to support its steep growth plans. The portfolio mix

² Ratios for FY2023 are as per ICRA's calculations; adjustments have been made taking into consideration the transfer of assets from Group entities to Keertana as on April 4, 2022. If the ratios are computed based on the reported financial statements, the net interest margin, operating expenses/AMA and PAT/AMA would have been 16.4%, 8.2% and 6.1%, respectively.

between gold loan and other segments is expected to be 40:60 (gold loan: non-gold loan) over the medium term. The operations are geographically concentrated currently, with Andhra Pradesh contributing 94% to the AUM as of June 2023. However, the company plans to increase the share of portfolio in Telangana, Karnataka and Tamil Nadu. It also plans to foray into Odisha to expand the group loan portfolio in the current year.

The rating factors in the risks associated with the marginal borrower profile, sizable share of unsecured lending, along with the challenges associated with a high pace of growth and employee attrition.

Scope for improvement in funding profile – Over the last one year, Keertana secured funding from multiple sources including from NBFCs, banks, market issuances (NCD) and securitisation. The funding, however, remains skewed, with NBFCs contributing to 46% of total borrowings as of June 2023, followed from banks at 22% (including small finance banks of 3%), promoters and related entities (14%), via non-convertible debentures (11%) and securitisation (7%). Going forward, it would be crucial for the company to improve its borrowing profile by increasing the share of banks, which could support the company’s steep growth plans and lower its cost of borrowing.

Liquidity position: Adequate

Keertana has adequate liquidity with cash and cash equivalents of Rs. 12.7 crore and undrawn sanctions of Rs. 61.2 crore as on May 31, 2023. The company has repayments of Rs. 132.8 crore due during June-August 2023 (including interest of Rs. 14.7 crore). No cumulative mismatches were observed in the asset-liability maturity (ALM) profile, as on May 31, 2023, as most of the loans extended by Keertana are short term in nature.

Rating sensitivities

Positive factors – ICRA could change the outlook to Positive or upgrade the ratings if the company scales up its portfolio and improves its borrowing profile, while maintaining a healthy earnings and asset quality performance.

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 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 4, 2022.

Keertana's AUM stood at Rs. 761.7 crore through 248 branches (225 operational) as of June 2023. Gold loans contributed 55% to the AUM while JLG, LAP and MSME accounted for the remaining 45% as of June 2023. Keertana reported a net profit of Rs. 21.4 crore on a managed asset base of Rs. 693.8 crore in FY2023 compared with a net profit of Rs. 0.2 crore on a managed asset base of Rs. 2.8 crore in FY2022. It reported a provisional net profit of Rs. 11.8 crore on a managed asset base of Rs. 871.1 crore in Q1 FY2024.

Key financial indicators

Keertana – Standalone	IGAAP	IGAAP	IGAAP
	Audited	Audited	Provisional
	FY2022	FY2023	Q1 FY2024
Total income	0.3	95.3	48.1
Profit after tax	0.2	21.4	11.8
Net worth	2.7	174.3	224.1
Loan book	1.9	609.2	761.7
Total managed assets	2.8	693.8	871.1
Return on managed assets	7.0%	6.1% (4.7%#)	6.0%
Return on net worth	7.2%	24.2% (18.9%#)	23.6%
Managed gearing (times)	0.0	2.9	2.8
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	144.5%	27.2%	27.3%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Managed gearing = (on-book debt + off-book portfolio) / net worth

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	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Jul 31, 2023	Aug 26, 2022	-	-
1 Long term – Fund-based term loans	Long term	40.00	40.00	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
2 Short term – Fund-based working capital demand loans	Short term	20.00	20.00	[ICRA]A3+	[ICRA]A3	-	-
3 Long-term/Short-term fund based – Unallocated	Long term/ Short term	440.00	0.00	[ICRA]BBB (Stable)/ [ICRA]A3+	[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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument	Date of issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
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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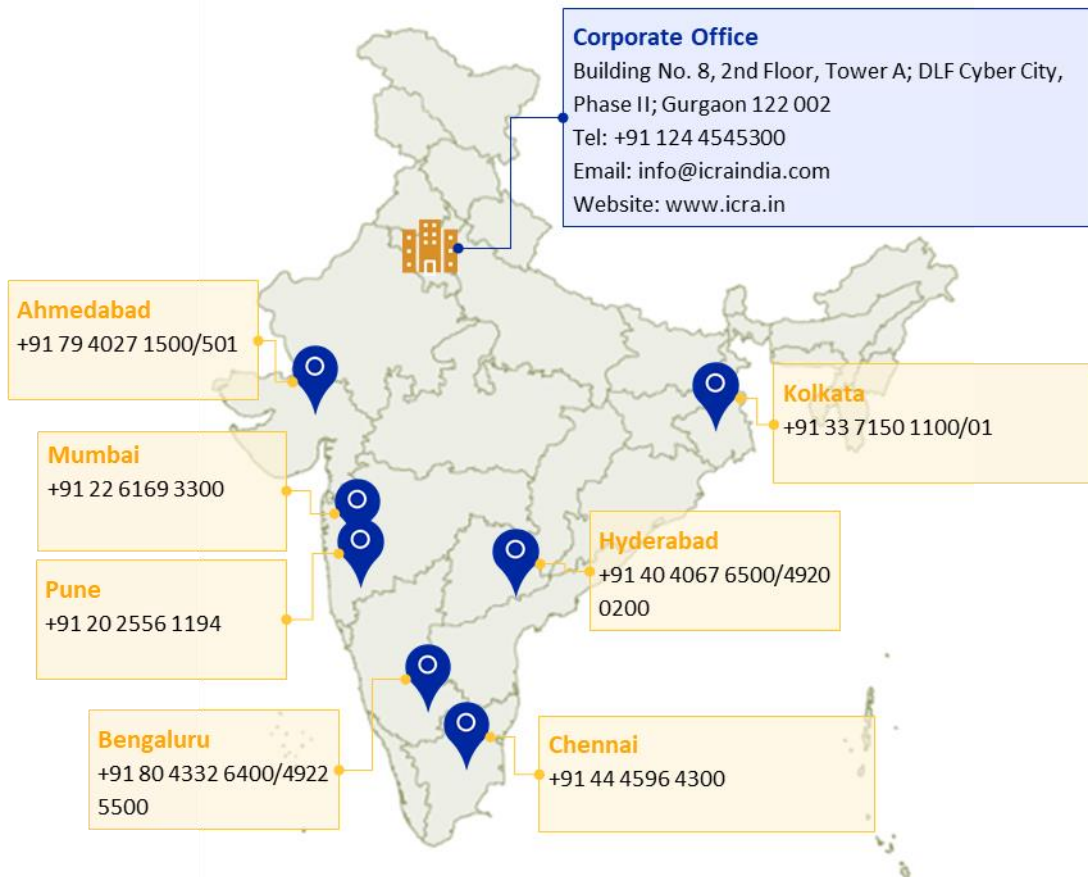
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