Visage Holdings and Finance Private Limited

July 03, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Remarks**
Long-term Bank Facilities	77.00 (Rupees Seventy seven crore only)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Positive (Triple B Minus; Outlook: Positive)**
Non-Convertible Debenture-I	21.00 (Rupees Twenty one crore only)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Positive (Triple B Minus; Outlook: Positive)**
Non-Convertible Debenture-II	12.00 (Rupees Twelve Crore only)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Positive (Triple B Minus; Outlook: Positive)**
Non-Convertible Debenture-III	32.00 (Rupees Thirty two crore only)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Positive (Triple B Minus; Outlook: Positive)**
Sub-ordinated Debt issue	12.00 (Rupees Twelve Crore only)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Positive (Triple B Minus; Outlook: Positive)**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities and various debt instruments of Visage Holdings and Finance Private Limited (VHFPL) factors in the significant improvement in scale of operations and financial performance of the company in the past two years ended March 31, 2018. The ratings continue to factors in the experience of the management, adequate loan appraisal, risk management and MIS systems, relatively stable asset quality, comfortable capitalization profile, moderately diversified resource profile and comfortable liquidity profile. The ratings are constrained by presence in the MSME segment which is relatively risky and unsecured nature of exposure, moderate seasoning of portfolio and moderate profitability profile on account of growing nature of operations.

In light of high growth plans envisaged by VHFPL over different geographies in the medium term, ability of the company to maintain its asset quality & capital adequacy ratios and improve its profitability and effectively manage its growing scale of operations would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management team

VHFPL is promoted by Ms. Hardika Shah, who is currently the CEO of the company. Ms. Hardika Shah has nearly 20 years of management consulting experience across various industries like financial services, Insurance, technology etc. in different geographies like US, Australia, Singapore, Japan, India, etc. The day to day operations are looked after by senior management team who are having considerable experience in the financial sector especially in the retail lending segment which is overseen by the board. The board consists of eight directors with two promoter directors and four nominee directors each one from Gaja Capital, Gawa Capital, Michael & Susan Dell Foundation and Unitus Impact and two independent Directors. Along with Ms.Hardika Shah, Mr. Thirunavukkarasu who is Chief Operating Officer represents the promoter on the board. The COO has an experience of around 12 years in the Indian microfinance industry.

Good Business growth witnessed in FY18 through expansion in newer geographies

VHFPL‘s AUM grew from Rs.192.31 crore as on March 31, 2017 to Rs. 397.43 crore as on March 31, 2018 registering growth rate of 107% during FY18. The growth was supported by mobilisation of equity capital during FY18 and expansion of its branch network. The company operates in 8 states (PY: 7) with 60 branches (PY: 30) as on March 31, 2018. During FY18, the company expanded into Gujarat and opened 6 branches in that state. The proportion of Tamil Nadu remained major portion of loan portfolio at around 37.86% as on March 31, 2018 however reduced from 43.42% as on March 31, 2017. As on March 31, 2018, Karnataka constituted around 18.86% (PY: 19.34%) of the total portfolio, followed by

[1]*Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications*

Maharashtra with 18.30% (PY: 15.55%), Andhra Pradesh with 13.54% (PY: 9.20%), Telengana with 7.34% (PY: 8.68%), Pondicherry with 3.00% (PY: 3.64%), Gujarat with 1.08% (PY: 0.00%) and Odisha with 0.01% (PY: 0.16%). The company's average ticket size remained at similar level at around Rs.3.5-4 lakhs for the last 5 years and ticket size between Rs. 2-4 lakhs constituted around 28.58% (PY:27.93%) and Rs. 4-6 lakhs constituted around 23.96% (PY:23.28%) of the total AUM as on March 31, 2018.

Adequate Loan appraisal, risk monitoring and collection process

VHFPL has defined structure to monitor the operations at different levels. VHFPL operates with hub and spoke model with hub being functioning as a branch. Each hub has separate sales and credit/risk team. The sourcing of the business is done through internal sales team or channel partner with internal sales team sources more than 90% of the business. The selection of the customers runs through several levels of appraisals and checks by including initial screening by the centralized credit team, psychometric tests, personal visits and discussion, verification of business related documents, business cash flow assessment and references from existing customers. The loan is sanctioned based on the risk scorecard which was developed internally based on the financial strength of the customer and his business.

The disbursement is done through NEFT/RTGS directly to the bank accounts of the customers in case of Working capital loans and to the vendors in case of Machinery financing and the collection is done through NACH/ PDCs. The sales team is responsible for softer bucket collections and once the loan installment moves to harder buckets, the recovery team at the regional level would be responsible for collection.

Good MIS system customized to internal policies and process

VHFPL uses third party software comprising loan management systems, customer management systems, audit management system and business intelligence system which enables the technology solution for various business segment. The system is customised in accordance with company's internal policies and process and the same has been integrated completely with MIS starting from customer lead generation, loan origination, credit appraisal, collection management, overdue management and closure of accounts. The MIS System is integrated with Accounting module which enables the company to track disbursement and collection modules and manage multilevel GL accounting, Trial balance, P&L and balance sheet. The system is equipped with generating various reports for people in different hierarchy to monitor the various process like credit appraisal, disbursements and collections and could be generated at any time to track the performance of the business.

Relatively Stable asset quality profile

VHFPL's asset quality indicators witnessed improvement over the last 3 years. Gross NPA reduced from 1.40% (Net NPA: 0.91%) as on March 31, 2016 to 1.25% (Net NPA: 0.82%) as on March 31, 2017 and further to 1.14% (Net NPA: 0.74%) as on March 31, 2018. The Gross NPA on a 90 day lagged basis was 1.54% as on March 31, 2018 as against 1.96% as on March 31, 2017. The 90+ dpd was reduced from 2.06% as on March 31, 2017 to 2.01% as on March 31, 2018. The company was able to maintain the gross NPA less than 1.5% after witnessing 1 or 2 complete loan cycles and events like demonitisation, GST implementation which has impacted the segment which the company currently operates. With high growth plan envisaged by the company over different geographies, the ability of the company to maintain asset quality at comfortable level to avoid any impact on their profitability remains critical.

Comfortable capitalisation

VHFPL's capital adequacy ratio as on March 31, 2018 was comfortable at 28.71% and Tier I capital adequacy ratio at 25.12% as against 20.37% and 13.09% respectively as on March 31, 2017. The improvement in the capitalisation is due to equity capital infusion of Rs. 70 crore during October 2017 due to which the networth improved from Rs.24.1 crore as on March 31, 2017 to Rs. 95.2 crore as on March 31, 2018. The gearing also improved from 7.90x to 3.04x during aforementioned period. The company's ability to maintain capital adequacy ratios at comfortable level in the back of growing scale of operations over the medium term remains key rating sensitivity.

Moderately diversified resource profile and comfortable liquidity profile

VHFPL's source of funding was earlier skewed towards loans from Financial Institutions during the initial stage of operations however during FY18, the company has gained more access into borrowings from banks and Market instruments in the form of Non-convertible debentures and Sub debts which resulted in moderation in cost of funds. The company raised around Rs. 69.00 crore in the form of NCDs during FY18 and the proportion of Bank borrowings and NCD increased to 17.55% and 25.98% as on March 31, 2018 from 3.83% and 17.10% respectively as on March 31, 2017. The total borrowing stood at 294.4 crore as on March 31, 2018 increased from Rs. 189.42 crore as on March 31, 2017.

Going forward, the ability of the company to diversify their resource profile further and raise funds at competitive interest rates would remain critical for profitability of the company. The company's ALM profile is comfortable with positive mismatches in less than one year bucket. Moreover, the company's average tenure of loan portfolio book was around 2.4 years whereas average tenure of borrowings was around 3.7 years resulting in favorable ALM profile.

Industry Outlook and Prospects

Over the last few years, the NBFC sector has gained systemic importance with increase in share of NBFC's total advances to bank total advances. The same has resulted in the Reserve Bank of India (RBI) taking various policy actions resulting in NBFCs attracting higher support and regulatory scrutiny. The RBI has revised the regulatory framework for NBFCs which broadly focuses on strengthening the structural profile of NBFC sector. Overall the revised regulations are positive for the NBFC sector making it structurally stronger, increase transparency and improve their ability to withstand asset quality shocks in the long run.

The last three years have been challenging period for the NBFCs due to change in NPA norms resulting in higher provisioning and rising delinquencies due to demonetization thereby impacting profitability. However, with support from the external equity investors and lenders and the experience of the management to control the liquidity position provides additional comfort to the credit profile of NBFCs in spite of impact on profitability. However with the increased competition prevailing in the financial sector, the ability to remain focused on target customers and improve the business volumes without impacting their asset quality would be key rating sensitivity going forward.

Key Rating Weaknesses

Presence in the MSME segment which is relatively riskier and unsecured nature of exposure

VHFPL is primarily lending for the business finance needs of the un-organised MSME segment in the urban and semi-urban areas which is characterized by marginal credit profile of the borrowers and are not serviced by the banking sector. Since this segment is highly susceptible to the impact of economic downturn and asset quality is a key monitorable. However, the management team's good knowledge on this target customer segment provides comfort. The company would remain focused on this segment, as there is significant potential to grow their business though this segment is highly susceptible to the impact of economic downturn. VHFPL provides either unsecured loans or through hypothecation of the assets (machinery) however does not take any collateral for the loans which may result in higher probability of losses at the time of recovery.

Moderate profitability profile however improved during FY18 supported by overall business growth

VHFPL reported Profit after tax of Rs.4.6 crore during FY18 on a total income of Rs. 70.1 crore as against Profit after tax of Rs. 1.8 crore on a total income of Rs.32.7 crore during FY17 due to improvement in the overall business growth. The company's NIM improved to 7.89% during FY18 from 7.75% during FY17 and the operating expenses increased from 8.75% as on March 31, 2017 to 8.95% as on March 31, 2018 due to branch expansion during FY18. During FY18, the company's ROTA was around 1.43% as against 1.13% in FY17.

Analytical approach:

Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]

[CARE's Policy on Default Recognition]

[CARE's methodology for Non-Banking Financial Companies]

[Financial ratios – Financial sector]

About the Company

VHFPL was incorporated in New Delhi in 1996 and registered as a Non-banking Financial Company and obtained Certificate of Registration from Reserve Bank of India (RBI) on March 23, 2000. VHFPL was taken over by the current promoter (Ms. Hardika Shah) in 2011 and subsequently the registered office was changed to Bangalore in 2013 and obtained a fresh Certificate of Registration from RBI dated August 27, 2013. VHFPL provides loans in the range of Rs.1 Lakh to Rs.25 Lakhs to Micro and Small businesses through a supply-chain financing model. VHFPL offers two products, i.e. Long-term loans (LTL) for asset financing and working capital plus short-term working capital loans in the form of Receivables financing/Line of credit (RF/LOC). The asset/machine purchased by the customers is hypothecated and no collateral is taken by VHFPL while lending.

VHFPL currently operates from 60 branches spread across 7 states and 1 Union Territory. As on March 31, 2018, VHFPL had AUM of 397.43 crore of which LTL constituted 96% and the rest being LOC. During October 2017, the company received equity capital of Rs. 70 crore from the external investors Gaja Capital and Global Impact Funds SCA – SICAR (Gawa Capital) and existing investors Michael & Susan Dell Foundation and Unitus Impact PCC.

As on March 31, 2018, Promoter held 15.97% of the equity, Gaja Capital held 20.80%, Global Impact Funds SCA SICAR held 15.80%, Unitus Impact held 12.93%, Michael & Susan Dell foundation held 11.05% and others held 23.45% of the total shareholding of the company.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	32.7	70.1
PAT	1.8	4.6
Interest coverage (times)	1.11	1.23
Total Assets	227.2	420.0
Net NPA (%)	0.82	0.74
ROTA (%)	1.13	1.43

A: Audited; Prov-Provisional

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	April 2021	67.00	CARE BBB; Stable
Debt-Subordinate Debt	September 21, 2016	16.90%	September 2022	12.00	CARE BBB; Stable
Debentures-Non Convertible Debentures	January 31, 2017	13.45%	February 2020	21.00	CARE BBB; Stable
Debentures-Non Convertible Debentures	July 04, 2017	13.50%	July 2020	12.00	CARE BBB; Stable
Debentures-Non Convertible Debentures	February 15, 2018	12.0605%	February 2023	32.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	67.00	CARE BBB; Stable	-	1)CARE BBB-; Positive (19-Feb-18) 2)CARE BBB-; Stable (29-Sep-17)	1)CARE BBB-; Stable (31-Jan-17) 2)CARE BBB- (07-Oct-16) 3)CARE BBB- (16-Sep-16)	-
2.	Debt-Subordinate Debt	LT	12.00	CARE BBB; Stable	-	1)CARE BBB-; Positive (19-Feb-18) 2)CARE BB+; Stable (29-Sep-17)	1)CARE BB+; Stable (31-Jan-17) 2)CARE BB+ (16-Sep-16)	-
3.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB; Stable	-	1)CARE BBB-; Positive (19-Feb-18) 2)CARE BBB-; Stable (29-Sep-17)	1)CARE BBB-; Stable (31-Jan-17)	-
4.	Debentures-Non Convertible Debentures	LT	21.00	CARE BBB; Stable	-	1)CARE BBB-; Positive (19-Feb-18) 2)CARE BBB-; Stable (29-Sep-17)	1)CARE BBB-; Stable (31-Jan-17)	-
5.	Debentures-Non Convertible Debentures	LT	12.00	CARE BBB; Stable	-	1)CARE BBB-; Positive (19-Feb-18) 2)CARE BBB-; Stable (29-Sep-17) 3)CARE BBB-; Stable (29-Jun-17)	-	-
6.	Debentures-Non Convertible Debentures	LT	32.00	CARE BBB; Stable	-	1)CARE BBB-; Positive (19-Feb-18)	-	-

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CIN - L67190MH1993PLC071691