

Visage Holdings and Finance Private Limited

June 25, 2021

Ratings

Instrument	Amount (Rs. crore)	Ratings ¹	Rating Action
Non-Convertible Debenture-IX (Proposed)	16.00	CARE BBB; Negative (Triple B; Outlook: Negative)	Assigned
Total Long-term Instruments	16.00 (Rs. Sixteen crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed non-convertible debenture issue of Visage Holdings and Finance Private Limited (Visage) continues to factor in the experience of the management team in the lending business, adequate loan appraisal, risk management & MIS System, comfortable capital adequacy level supported further by equity infusion of Rs.22.56 crore during FY21 (refers to the period April 01 to March 31) and adequate liquidity profile. The rating is, however, constrained by its presence in MSME segment which is relatively risky, unsecured nature of exposure, moderate seasoning of the loan portfolio, geographical concentration amidst the efforts taken for diversification, moderately diversified resource profile and moderate profitability levels on account of growing scale of operations. The rating also takes note of continuation of moderate asset quality during FY21.

Rating Sensitivities

Positive Factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in the scale of operations and profitability on a sustained basis along with improvement in asset quality and geographical concentration

Negative Factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Absence of improvement in asset quality with overall GNPA/Stage III Assets remaining above 5% on sustained basis.
- Weakening of profitability and capital adequacy levels
- Moderation in liquidity profile

Outlook: Negative

The Negative outlook reflects the likelihood of continuing asset quality pressure on the backdrop of Covid-19 pandemic-induced slowdown which may limit the possibility of improvement in asset quality in the medium term. Excluding the one-time restructured assets (as allowed by RBI), Gross and Net Stage III Assets stood at 5.4% and 3.4% as on March 31, 2021 as against 5.1% and 2.9% as on March 31, 2020, respectively. Furthermore, considering the ECLGS and Credit Guarantee fund Trust for Micro and Small Enterprises (CGTMSE) cover, Net Stage III Assets stood at 1.2% as on March 31, 2021. Including, one-time restructured assets, Gross and Net Stage III Assets increased from 6.1% and 3.6% as on March 31, 2020 to 10.4% and 8.2% as on March 31, 2021, respectively. Notwithstanding higher credit cost reported in FY21, Visage continued to report profit in FY21 supported by adequate pricing/yield on advances. In view of emergence of second wave of COVID-19 across India, bringing back the customers to regular repayments and improving Gross Stage III Assets remain to be seen and will remain a key monitorable. The outlook may be revised to stable in the event that the asset quality parameters show improvement from the present levels.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Board and Senior Management Team

Visage is promoted by Ms Hardika Shah, who is currently the CEO of the company. Ms Hardika Shah has more than 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 have considerable experience in the financial sector especially in the retail lending segment which is overseen by the board. The board consists of nine directors including four nominee directors, one each from Gaja Capital, Gawa Capital, Michael & Susan Dell Foundation and Patamar Capital and three independent Directors. Along with Ms Hardika Shah, Mr Thirunavukkarasu who is the Chief Operating Officer represents the management team on the board. The COO has an experience of around 20 years in the Indian microfinance industry.

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

Established customer selection, credit appraisal, risk monitoring and collection process

Visage has a defined structure to monitor the operations at different levels. Visage currently works on Hub & Spoke model, with hub being functioning as a branch. Current branch structure of Visage has branch manager, loan officers, risk officer, collection officer and recovery/ legal officer. Each loan officer is responsible for a spoke.

The selection of the customers runs through several levels of checks including initial screening by the centralized credit team by checking customers KYC data, nature of the business, credit bureau checks and verification of the business track record. After the initial screening, the sales team conducts psychometric test for the customers, personal visits and discussion, verification of business-related documents including sales invoice, purchase vouchers and bank statements, business cash flow assessment and references from existing customers. Next level of screening is done by branch credit team which verifies all the documents submitted by the customers and reassess the cash flows generated out of the business and forward the same for credit approval team for loan sanctioning. The loan is sanctioned on the basis of the risk scorecard of the customer which was developed internally to weigh the financial strength of the customer and his business.

The entire workflow from on-boarding and through the entire life cycle of the loan is online through a cloud-based Loan Origination and Management Software. Once the loan is sanctioned, the disbursement is done through NEFT/RTGS/PDC directly to the bank accounts of the customers in case of working capital loans and to the vendors in case of machinery financing. The collection is done through NACH.

Established MIS system customized to internal policies and process

Visage uses a 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 the 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 system is also enabled with risk scoring, appraisal, document scanning, legal and technical evaluation, collateral management, appraisal, credit check, risk check, credit committee and sanction process. The system is integrated with accounting module which enables the company to track disbursement and collection modules and manage multilevel general ledger 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 processes like credit appraisal, disbursements and collections and could be generated at any time to track the performance of the business. Visage recently added collection priority index in MIS for collection team to improve the collection efficiency.

Comfortable capitalization profile

With the equity raise of Rs.16 crore in June 2019, which was a part of Rs.100 crore equity infusion from the existing investors such as Patamar Capital, Gawa Capital, Gaja Capital and Michael & Susan Dell Foundation during FY19 (Rs.84 crore infused in March 2019) and growth in portfolio, Total CAR and Tier I CAR stood at 28.8% and 23.9% as on March 31, 2020, as against 33.9% and 25.3% as on March 31, 2019. As on March 31, 2020, gearing stood at 3.89x.

During November 2020, Rs.22.56 crore was infused by the existing investors and Total CAR and Tier I CAR stood at 29.2% and 25.7% as on March 31, 2021. Gearing as on March 31, 2021 stood at 3.80x.

Key Rating Weaknesses

Moderate improvement in scale of operations during FY20 with geographical concentration of loan portfolio

Visage has showed significant growth in AUM over the last few years ended March 31, 2019. During FY20, AUM has grown 27% y-o-y from Rs.672 crore as on March 31, 2019 to Rs.853 crore as on March 31, 2020. Disbursements during FY20 stood at Rs.596 crore as against Rs.520 crore during FY19. As on March 31, 2020, Visage operates in 6 states & 1 Union Territory with an employee base of 1,270 (PY:904) and 110 branches (PY: 90) which includes 32 in Tamil Nadu 23 in Karnataka, 20 in Maharashtra, 17 in Andhra Pradesh, 10 in Gujarat, 7 in Telengana and 1 in Pondicherry.

Share of Top State (Tamil Nadu) has significantly improved over the last few years from 62.35% as on March 31, 2016 to 31.70% as on March 31, 2020. However, share of top three states (Tamil Nadu, Karnataka, and Maharashtra) remained concentrated with 71.76% as on March 31, 2020 (PY: 74.36%).

With lower disbursement of Rs.459 crore during FY21 due to the outbreak of Covid-19, AUM has grown only 6% during FY21 to Rs.903 crore as on March 31, 2021.

Moderate profitability levels

With increase in the lending rate during FY20, NIM increased from 11.60% in FY19 to 12.72% in FY20. Opex/average assets continues to be relatively high over the last few years, and during FY20, it further increased to 9.20% (PY: 8.44%) because of branch expansion and strengthening of the senior management team at HO level. With the transition from IGAAP to Ind-AS, during FY19, Visage reported a net loss of Rs.7.74 crore under Ind-AS as against a profit of Rs.8.29 crore under IGAAP mainly because of the increase in impairment of financial assets under ECL method. During FY20, Visage enrolled most of their portfolio under CGTMSE scheme and as a result of which impairment of financial instruments were reduced during FY20.

Credit Cost (as a percentage of the total assets) stood at 1.73% during FY20 as against 5.62% during FY19. With the improvement in NIM, ROTA stood at 1.95% during FY20.

During FY21, Visage reported a PAT of Rs.7.48 crore on a total income of Rs.235.96 crore and ROTA stood at 0.71%. With higher write-off FY21, credit cost stood at 4.13%.

Moderately diversified resource profile

As on March 31, 2020, the proportion of term loans, NCDs & sub debts and PTC stood at 43.47%, 46.71% and 9.82% as against 44.40%, 47.30% and 8.30%, respectively, as on March 31, 2019. Share of Term loan from NBFC / FI has improved significantly from 41.98% as on March 31, 2018 to 27.90% as on March 31, 2020.

The weighted average cost of Debt (WACD) has slightly improved from 13.03% as on March 31, 2019 to 12.94% as on March 31, 2020.

Visage also has direct origination (DO) relationship (Co-lending) with few lenders where 20% of the loans remain in the books of Visage & 80% in the books of DO partner. Total portfolio raised under DO increased from Rs.23.13 crore as on March 31, 2019 to Rs.28.88 crore as on March 31, 2020.

The share of Term Loans, NCDs & Sub debts and PTC stood at 48.75%, 43.85% and 5.63% as on March 31, 2021, respectively. Also, as on March 31, 2021, Visage has a commercial paper outstanding of Rs.15 crore.

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

Visage is primarily lending towards the business finance needs of the un-organized 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. Visage provides loans only through hypothecation of the assets (machinery/stocks/non-machinery assets) and does not take any collateral for the loans which may result in higher probability of losses at the time of recovery.

Moderation in asset quality during FY20

Gross and Net Stage III Assets increased from 5.2% and 3.0% as on March 31, 2019, to 6.1% and 3.6% as on March 31, 2020, respectively, with a slippage of 9.10% during FY20. Visage has done one-time restructuring (as allowed by RBI to Banks and NBFCs) for few of the accounts and excluding the same, Gross and Net Stage III Assets stood at 5.1% and 2.9% as on March 31, 2020, as against 4.3% and 2.5% as on March 31, 2019. During FY20, Visage has written-off Rs.25.71 crore and adjusted Gross Stage III Assets (GNPA + write-off) stood at 9.20% as on March 31, 2020.

0+ and 90+ (On AUM Basis) has increased from 7.16% and 3.60% as on March 31, 2019 to 12.50% and 4.47% as on March 31, 2020. Post the moratorium period, delinquency in the softer buckets significantly increased in-comparison with the pre-covid levels and 0+ DPD as on March 31, 2021 stood at 16.97%. As on March 31, 2021, Gross and Net Stage III Assets stood at 10.4% and 8.2%, respectively, and excluding the one-time restructuring, Gross and Net Stage III Assets stood at 5.4% and 3.4%, respectively. Furthermore, considering the ECLGS & CGTMSE cover, Net Stage III Assets as on March 31, 2021 stood at 1.2%. Also, the company has written off NPA of Rs.43.36 crore during FY21. With the prevailing conditions post lockdown, the ability of the company to improve asset quality to avoid impact on the profitability remains critical.

Industry outlook and prospects

The outlook for NBFCs and HFCs has turned negative due to Covid-19 outbreak. The sector which grappled with liability side disruptions could see another wave of challenges, this time in the form of asset quality. Amidst these, funding challenges could mount again, as banks become more selective in extending credit. Mutual funds are expected to shy away from lending to the sector as they witness redemption pressures. Furthermore, securitization, which has been one of the major sources of funding for NBFCs/HFCs during the last 18 months, could take a pause, as collections remain uncertain during moratorium. Recent measures announced by the RBI like the Targeted Long Term Repo Operations 2.0 (TLTRO-2) and refinancing from NABARD, SIDBI & NHB could provide some solace to the NBFCs & HFCs. However, the sector continues to stare at asset side challenges which are expected to mount going forward after the moratorium period is over. If the Covid-19 situation prolongs, leading to extension of lockdowns, the challenges for the sector could mount substantially. Large NBFCs/HFCs, backed by strong corporate groups are likely to use their liquidity and not seek moratorium from banks, whereas other NBFCs could be compelled to exercise this option, provided the banks oblige. Under any scenario, it is likely that the liquidity buffers may start depleting for those who do not get the moratorium from banks or are unable to raise additional funding from them.

Financiers who provide loans to MSME units generally tend to rely on assessment of the estimated cash flows and offer loans at high yield. Lockdowns, disruptions in supply chain and impact on large industries would increase immediate delinquencies in this segment. However, secured MSME loans with collateral security and longer tenure may have the time for eventual

recovery and may be more immune to the economic shocks compared to unsecured ones. Impact could vary across sub-segments and ticket sizes.

Impact of Covid-19

Visage has extended moratorium to its borrowers following Reserve Bank of India's circular, on the Covid-19 regulatory package. The company has requested its lenders to extend moratorium 1.0 as well as 2.0; some of them have accepted, while some of them have rejected for the same. Collection efficiency has improved from 40% during April 2020 to 81% during September 2020 and further to 89% during March 2021. However, with the second wave of Covid-19, the impact on asset quality and profitability remains to be seen.

Liquidity: Adequate

Visage's ALM profile remains adequate with no cumulative mismatches in any of the time buckets as on March 31, 2021. The total debt obligation (Principal alone) in less than the 1-year bucket stood at Rs.438 crore as on March 31, 2021. With the Cash and bank balances of Rs.203 crore as on March 31, 2021 and funds in pipeline, liquidity remains adequate. During FY21, Visage has made amendment in the terms of few of the NCDs with the consent from the investors.

Analytical approach: Standalone

CARE has taken a limited review based on key financials for the year ended March 2021 (Prov.).

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios-Financial Sector](#)

[CARE's Rating Methodology for Non-Banking Finance Companies \(NBFCs\)](#)

About the Company

Visage 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. Visage was taken over by the current promoter (Ms Hardika Shah) in 2011 and subsequently the registered office was moved to Bangalore in 2013 and obtained a fresh Certificate of Registration from RBI dated August 27, 2013.

Visage provides loans in the range of Rs.1 Lakh to Rs.25 lakh to Micro and Small businesses in manufacturing and trading. Visage offers three products, Long-term loans (LTL) with a tenor upto 5 years for the purpose of Asset Purchase, Business Development or working Capital need, Short-term loans (STL) with a tenor upto 1 year for working capital need and receivables financing (RF) with a tenor upto 1 Year for working Capital need. The asset/machine purchased by the customer is hypothecated and no collateral is taken by Visage while lending.

Visage currently operates from 110 branches spread across 6 states and 1 Union Territory. As on March 31, 2020, AUM stood at Rs.853 crore and of the total AUM, LTL constituted 99% and the rest being STL and RF.

As on December 31, 2020, on a fully dilutive basis, 16.36% is held by the promoter (including CCD) and the remaining is held by Gaja Capital and affiliates, Gawa Capital and affiliates, Patamar Capital and affiliates, Michael and Susan Dell foundation, Visage Trust, Sorenson Impact foundation, Mesoloan LLC, John Ayliffe and Kinara Capital holdings Pte Limited.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	144	224
PAT	-8	18
Interest Coverage (Times)	0.84	1.27
Total Assets	874	987
Net NPA/stage III (%)	3.03	3.60
ROTA (%)	-1.20	1.95

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	-	-	-	-	16.00	CARE BBB; Negative

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	339.00	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (06-Sep-18) 2)CARE BBB; Stable (03-Jul-18)
2.	Debt-Subordinate Debt	LT	12.00	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (03-Jul-18)
3.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (06-Sep-18) 2)CARE BBB; Stable (03-Jul-18)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (03-Jul-18)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (11-Sep-19)	1)CARE BBB; Stable (03-Jul-18)
6.	Debentures-Non Convertible Debentures	LT	32.00	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (03-Jul-18)
7.	Debentures-Non Convertible Debentures	LT	32.00	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (25-Jul-18)
8.	Debentures-Non Convertible Debentures	LT	4.67	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (08-Nov-18)

9.	Debt-Subordinate Debt	LT	7.50	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (25-Dec-18)
10.	Debt-Subordinate Debt	LT	15.00	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (25-Jan-19)
11.	Debt-Subordinate Debt	LT	10.00	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (31-Jan-19)
12.	Debentures-Non Convertible Debentures	LT	60.00	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (11-Mar-19)
13.	Debt-Subordinate Debt	LT	5.00	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19)	1)CARE BBB; Stable (20-Mar-19)
14.	Debentures-Non Convertible Debentures	LT	15.11	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21) 2)CARE BBB; Negative (26-Aug-20)	1)CARE BBB; Stable (11-Sep-19) 2)CARE BBB; Stable (27-Jun-19)	-
15.	Debentures-Non Convertible Debentures	LT	37.00	CARE BBB; Negative	-	1)CARE BBB; Negative (24-Feb-21)	-	-
16.	Debentures-Non Convertible Debentures	LT	16.00	CARE BBB; Negative	-	-	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

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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