CareEdge Global revises Long Term Rating on Foreign Currency Bonds Issuance of Kinara Capital Private Limited to 'CareEdge B-/Negative'

USD 12 million External Commercial Borrowing Bonds	**CareEdge B-/Negative (Outlook revised from Stable)**
USD 18 million External Commercial Borrowing Bonds (Proposed)	**CareEdge B-/Negative (Outlook revised from Stable)**

Rating Rationale

CareEdge Global has **revised the outlook to 'Negative' from 'Stable'** while reaffirming the rating of Kinara Capital Private Limited (Kinara) at 'CareEdge B- '. The revision in outlook reflects CareEdge Global's view that Kinara's credit profile may deteriorate in the near to medium term owing to weakening asset quality. The outlook revision also factors in the company reporting a loss of Rs 351 crore for FY25 (up from a loss of Rs 151 crore in 9MFY25) due to accelerated write-offs amid asset quality concerns and booked in the sale of the non-performing assets (NPA) book to an asset reconstruction company (ARC).

Additionally, Kinara has breached certain financial covenants (on 87.5% of the total debt), of which waivers have been secured only for 4% of the breached debt. The company has modest liquidity to cover its debt obligations for the next few months, and its sustainability is contingent upon timely collections and securing waivers from lenders without any adverse actions, including debt recall, however, no such actions have been taken as on date. Timely resolution of covenant breaches, the company's ability to secure incremental funding and improvement in asset quality would be key monitorable.

While Kinara has positive asset liability management for the next 12 months, its ability to diversify the funding profile will be critical to its credit profile. The rating continues to benefit from an experienced management team & board, and capitalisation level remaining above regulatory requirements.

Key Rating Drivers

Strengths

Experienced senior management team & board

Kinara Capital was founded by Ms. Hardika Shah, CEO, who is supported by a seasoned management team with extensive experience in the finance industry. Ms. Shah has over 20 years of management consulting experience across sectors, including financial services, insurance, and technology. The management team is further supported by an experienced and well-diversified board of directors. The board comprises nine directors, five nominee directors, and two independent directors. It is also backed by investors like the Michael and Susan Dell Foundation.

Capitalisation above the regulatory requirements

Total capital adequacy ratio (CAR) remained comfortable at 22.3% as on March 31, 2025, well above the regulatory requirement of 15%. However, CAR has declined from 27.6% as of March 31, 2024, due to losses booked during the year. This resulted in overall gearing increasing to 5.1x as of March 31, 2025, against 3.0x as of March 31, 2024. As per the management, the company is engaging investors to raise equity and is expected to receive an infusion of ~Rs 200-400 crore in the near term, which would provide a cushion for liquidity and capital for further disbursements. However, the timing of the same is not certain and hence monitorable.

Weaknesses

Weak Profitability, with the Company Reporting Significant Losses in FY25

The Company reported a loss of Rs 351 crore in FY25 due to increased stress in the unsecured loan portfolio across various asset classes. In response, Kinara tightened its credit policy by reducing the ticket size of unsecured loans and capping the loan amount in specific geographies where higher delinquencies were observed. The new credit measures has temporarily resulted in lower disbursements and muted the assets under management (AUM). Further, the company recognised a loss of Rs 107 crore from the derecognition of financial assets significantly in FY25, which increased the losses. Credit cost remained high at 13.5% in FY25 due to deterioration in asset quality and increased write-offs totalling Rs 341 crore. CareEdge Global believes that Kinara's profitability may remain weak due to ongoing stress in its portfolio, which may result in higher write-offs during this fiscal year.

Continued Deterioration in Asset Quality

As of March 31, 2025, the asset quality profile of the company reflects ongoing stress in the unsecured lending segment and an increase in delinquencies across geographies, sourcing channels, and customer segments. GNPAs increased to Rs 138.4 crore in FY25 from Rs 114 crore in FY24 despite accelerated write-offs done during the year. GNPA ratio rose to 7.4% in FY25 from 5.64% in FY24. Further, the 2-year lagged GNPA surged in FY25, indicating a deterioration in the asset quality of loans originated in FY23.

Liquidity

Kinara's liquidity position is modest with an unencumbered cash balance of Rs 168 crore as of May 31, 2025. No negative cumulative mismatches are reported (till the next 1-year bucket) in the asset-liability mismatch statement as of March 31, 2025. This amount is sufficient only to meet the upcoming near-term debt maturities over the next three months, and debt servicing depends on timely collections in the portfolio going forward. To support the liquidity and capitalisation, the company is looking forward to an equity infusion of ~Rs 200-400 crore in the near term.

Rating Sensitivities

Upward Factors

- Ability to significantly increase its scale of operations with Return on Assets (ROA) above 3% on a sustained basis
- Expected equity infusion in a timely manner
- Significant improvement in asset quality

Downward Factors

- Continuation of weak asset quality and further deterioration in liquidity
- Increase in asset under management (AUM) to net worth above 7x on a sustained basis

Environmental, Social and Governance (ESG) considerations

CareEdge Global notes that Kinara primarily lends to businesses operating in urban and semi-urban areas, actively promoting sustainable practices among its borrowers. This includes encouraging the

efficient use of natural resources such as water and raw materials, and fostering initiatives for recycling and reuse, aligning with broader environmental sustainability goals.
From a social perspective, the company addresses critical social risks by focusing on low-ticket MSME lending. This approach enhances credit accessibility for underserved segments, including women entrepreneurs and underserved businesses, thereby contributing to financial inclusion and socioeconomic development.

On the governance front, while the company demonstrates a reasonable commitment to governance practices, further improvements board structure and practices could enhance resilience and stakeholder confidence.

About the Company

Kinara Capital Private Limited (erstwhile Visage Holdings and Finance Private Limited) was incorporated in New Delhi in 1996 and registered as an NBFC. It obtained the registration certificate from the Reserve Bank of India (RBI) on March 23, 2000. Kinara was taken over by the current promoter, Ms Hardika Shah, in 2011, and subsequently, the registered office moved to Bengaluru in 2013. It obtained a fresh registration certificate from the RBI on August 27, 2013. The company provides collateral-free loans to micro-small-medium enterprises (MSMEs) with an average ticket size of Rs 7.5 lakhs in manufacturing, trading and services sectors for asset purchase, business development or working capital needs, at an average lending rate of 28% for a tenure of 12-60 months. Kinara had a total branch base of 80 across 6 states namely Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Tamil Nadu and Telangana. Kinara Capital's AUM stood at Rs 2840 crore as of March 31, 2025, out of which around 30% is concentrated in Tamil Nadu.

As on March 31, 2025, on a fully dilutive basis, the promoter, Ms. Hardika Shah, holds 8.51% stake, including compulsory convertible debentures (CCDs). Other major shareholders are Nuveen, Michael and Susan Dell Foundation, Patamar Capital, Gaja Capital and Gawa Capital.

Rating History

Instrument	Type	Rating	Date
External Commercial Borrowing Bonds	Long-Term Foreign Currency (Solicited)	CareEdge B-/Negative (Revision in Outlook)	June 18, 2025
External Commercial Borrowing Bonds	Long-Term Foreign Currency (Solicited)	CareEdge B-/Stable (Assigned)	December 27, 2024

Criteria Applied

CareEdge Global's Rating Methodology for Financial Institutions

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