India Ratings Assigns Keertana Finserv’s NCDs and Bank Loans ‘IND BBB+’/Stable

Aug 01, 2024 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has rated Keertana Finserv Private Limited’s (KFPL) debt instruments as follows:

Details of Instruments

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Non-convertible debentures*	-	-	-	-	INR6,000	IND BBB+/Stable	Assigned
Bank loans	-	-	-	-	INR2,000	IND BBB+/Stable	Assigned

*Yet to be issued

Analytical Approach

Ind-Ra has taken a standalone view of KFPL to arrive at the rating.

Detailed Rationale of the Rating Action

The rating takes into consideration the healthy growth in KFPL’s scale of operations in FY24, the considerable experience of the promoter, the history of capital infusions done by the promoter, a scalable franchise with well-defined product segments, and stable funding mix and asset quality. However, this is partially offset by the geographical concentration of the loan portfolio, with Andhra Pradesh constituting about 88% of the AUM at end-June 2024.

List of Key Rating Drivers

Strengths

- Scalable franchise with well-defined product segments; rising share of secured products
- Established track record of capital infusion by promoters
- Experienced promoter, but keyman risk remains
- Improving funding mix
- Stable asset quality
- Healthy profitability metrics

Weaknesses

Geographical diversification with rising scale remains monitorable

Detailed Description of Key Rating Drivers

Scalable Franchise with Well-Defined Product Segments; Rising Share of Secured Products: KFPL witnessed a healthy growth in its scale of operations in FY24, with the assets under management (AUM) growing by 1.5x to INR15.7 billion (FY23: INR6.2 billion). Furthermore, the loan book grew to INR19.4 billion at 1QFYE25. The agency expects the company to maintain its AUM growth, backed by an increasing trend of disbursements on a sequential basis and improved availability of funding. At 1QFYE25, about 52% of the AUM consisted of gold loans, followed by joint liability group (JLG) loans (36%), home loans (HL)/loans against property (LAP) (6%) and unsecured loans (7%). As a part of its strategy, the management intends increase the share of secured products in the overall AUM mix to 80% from 58% at 1QFYE25 (FYE24:49%). The agency expects the secured portion of the loan book to increase in the medium-to-long term; this would remain a key monitorable for the rating. KFPL operates through a network of 300 branches spread across six states and plans to increase the branch count to 500 by FYE25, which would enable it to expand its operations in the existing geographies.

Established Track Record of Capital Infusion by Promoters: The promoters have been infusing equity capital in KFPL on a timely basis since its inception in April 2022. This coupled with robust profitability scaled up the networth to INR5 billion at 1QFYE25 (FY24: INR3.8 billion; FY23: INR1.6 billion). The promoters have infused a total of INR4 billion in KFPL since inception and have committed further capital during FY25 to help maintain the growth momentum in the medium term. The company is well supported, with a capital base of INR5.1 billion at 1QFY25. KFPL had a debt outstanding of INR16.8 billion at 1QFYE25, resulting in leverage (debt/tangible equity) levels of 3.2x (FY24:3.3x, FY23:3x). KFPL's capital risk adequacy ratio stood at 26% at 1QFYE25 (FYE24: 23.6%, FYE23:26 %). The agency expects the non-banking financial company (NBFC) to operate at similar leverage levels in the near term, and the management has stated that it will contain the leverage at 4x in the long term. Furthermore, the promoter has sizable share of resources to infuse capital as and when needed.

Experienced Promoter, but Keyman Risk Remains: The promoter of KFPL has a proven track record in the NBFC-microfinance institutions (MFI) space. Prior to KFPL, the promoter had set up Spandana Sphoorty Financial Limited (IND A+/Stable), an NBFC-MFI with over 1,600 branches and outstanding AUM of INR119.7 billion as on 31 March 2024. KFPL witnessed an exponential increase in the scale of operations over FY23-FY24, and to sustain the growth momentum, it would require to strengthen the second line of management in the business.

Improving Funding Mix: KFPL's funding is well diversified, with access to financial institutions and capital markets. At 1QFYE25, the borrowing mix consisted of NCDs (45%), term loans from banks and financial institutions (37%) and securitisation (18%). The company has funding relationships with large NBFCs and small finance banks, and it is also engaged in discussions with a couple of public sector units (PSUs) to be on-boarded on their lender list. The capital market instruments of KFPL are largely subscribed by high networth individuals (HNI) investors. The promoter's reputation has played a key role in mobilising funds. Thus, there is an element of key-man risk involved in the business model. The agency believes increasing the share of funding from banks, which would also include on-boarding PSU banks, and the matured lending relationships with the existing lenders will be critical to contain the cost of borrowings.

Stable Asset Quality: With half of the loan book being largely made up of gold loans, the overall asset quality has remains stable. The gross non-performing assets stood at 0.08% in 1QFY25 (FY24: 0.05%; FY23: 0.01%). The delinquencies have remained under check because of the inherent strength of gold loans, with easy liquidation of collateral and low loss given default. However, the agency believes the portfolio is exposed to market risk from volatility in gold prices, wherein filters on loan-to-value need to be monitored on a real time basis. Any sharp decline in gold prices could have a detrimental impact on the portfolio in the near term and could lead to an increase in auctions.

The asset quality performance of the non-gold portfolio, which includes JLG loans, LAP/HL and unsecured loans, has remained steady, which has helped the company maintain its overall asset quality levels. However, the company plans to increase their exposure towards HL/LAP segment, which are of higher tenure; the seasoning of the newly originated book under this segment will have to be monitored.

Healthy Profitability Metrics: KFPL has been profitable since inception, and the company reported a profit after tax of INR716 million in FY24 (FY23: INR160 million). The healthy bottom-line has resulted in robust profitability ratios, with return on assets of 6.31% (annualised) at 1QFYE25 (FYE24: 5.92%, FYE23: 2.28%). The company's improved profitability was driven by the increase in scale of operations, improvement in overall yields on the loan book, and controlled credit costs. The cost to income ratio of KFPL has remained lower compared to peers, and stood at 33.35% at 1QFYE25 (FYE24: 33.43%, FYE23: 52.86%). The agency expects KFPL to maintain adequate profitability over the medium-to-long term, supported by benign credit cost and stable cost of funds.

Geographical Diversification with Rising Scale Remains Monitorable: KFPL's operations, which commenced in April 2022, remain geographically concentrated, given the management's plans to expand aggressively in the southern states in the initial growth phase. At end-June 2024, Andhra Pradesh accounted for 88% of the company's AUM (FY23: 95%), followed by Telangana with 7% (2.6%). The company has 300 branches spread across six states, and would now focus on expanding the share of AUM in Telangana and Orrisa in the near term. Ind-Ra believes that geographical expansion will be a prudent option for the company, as mono-state specific geography could lead to operational and control-related challenges that could impact KFPL's asset quality.

Liquidity

Adequate: At end-June 2024, KFPL's contractual structural liquidity statement had a cumulative surplus of 29% as a percentage of the total assets in less than one-year bucket, and a likely equity infusion of INR1.5 billion by its promoter in FY25 would further help augment the capital base. The company's ability to further raise funds from diverse sources remains a monitorable. However, on sustainable basis, the entity would maintain liquidity sufficient for three months of debt repayment (including inflows) and curtail leverage at 4.0x in the long term.

Rating Sensitivities

Positive: Ability to scale up the franchise while significantly improving the AUM mix towards secured lending from its existing levels, along with seasoning of the newly originated book towards HL/LAP, diversifying its funding mix and geographical presence while maintaining profitability buffers and asset quality will be positive for the ratings.

Negative: Following factors that could, individually or collectively, lead to a negative rating action include:

- sharp deterioration in the scale of operations
- material rise in portfolio delinquencies
- funding challenges, leading to dilution of liquidity buffers
- tangible leverage (debt to tangible equity) exceeding 4x on a sustained basis

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on KFPL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

KFPL is a non-deposit taking NBFC. It was incorporated in February 1996 as Rajshree Tracom Pvt Ltd, the promoters acquired it in March 2022. The gold loan business was acquired from Spandana Mutual Benefit Trust (INR1.9 billion) and the MSME business from Spandana Rural and Urban Development Organization (INR140 million) as per a business transfer agreement dated 4 April 2022. The company provides gold loans, group (JLG) loans, LAP/home loans and unsecured loans. As on 30 June 2024, the company had 300 branches spread across six states.

Key Financials Indicators

Particulars	FY24	FY23

Total assets (INR billion)	17.2	7
Total tangible equity (INR billion)	3.8	1.6
Net profit (INR million)	715.9	159.7
Return on average assets (%)	5.92	4.54
Equity/assets (%)	22.54	24.04
Capital adequacy ratio (%)	23.6	26
Source: Ind-Ra, KFPL		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating
Non-convertible debentures	Long-term	INR6,000	IND BBB+/Stable
Bank loan	Long-term	INR2,000	IND BBB+/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Description	Complexity Indicator
Non-convertible debentures	**Low**
Bank loans	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Nitin Chavan
Analyst
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40356113
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Jinay Gala
Director

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

APPLICABLE CRITERIA

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process