

RATING RATIONALE

28 December 2020

IKF Finance Limited

Brickwork Ratings assigns BWR A/Stable for Rs 50 Crs NCDs and reaffirms 'BWR A/A1' rating for the outstanding debt issues of IKF Finance Limited.

Particulars:

Instruments / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Aug 2020)	Present
Secured Non Convertible Debentures (NCDs)	-	50	Long term	-	BWR A/Stable
Unsecured Non Convertible Debentures (NCDs)	15	15	Long Term	BWR A/Stable	BWR A/Stable
Unsecured Non Convertible Debentures (NCDs) - Subordinated - Tier II	50	50			
Fund Based - Bank Loans	545.93	662.44			
Commercial Paper	10	10	Short Term	BWR A1	BWR A1
Total	620.93	787.44	Rs Seven Hundred Eighty Seven Crores and forty four lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank Loan facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I&II

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) assigns BWR A/Stable rating for the Rs 50 Crs Secured NCD issue and reaffirms the long-term rating of "BWR A"/Stable for the outstanding non-convertible debentures/bank loan facilities and short term rating of "BWR A1" for commercial paper issue of IKF Finance Limited (IKF) as tabulated above.

The rating assignment/reaffirmation factors in the established track record of the promoters, diversified portfolio with well defined credit policy and MIS systems, improving scale of operations and comfortable capitalization. However, the rating is constrained by average asset quality, moderate scale of operations due to regional concentration and challenging operating environment for NBFIs (Non bank financial institutions).

The ability of the company to sustain its growth while managing asset quality and profitability will be key rating monitorable.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the consolidated financial profile of IKF, along with its wholly owned subsidiary IKF Home Finance Ltd and applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil

KEY RATING DRIVERS

Credit Strengths:

- Established track record of the promoters:** IKF's promoters have a long track record in the financial services industry with experienced independent directors and nominee directors on the board. The Managing Director, Mr. VGK Prasad, has been associated with the vehicle financing business for more than three decades. Ms. K Vasumathi Devi, Executive Director looks after Business, Credit, Collections, HR & IT and has over a decade of experience in asset finance. The company has a good understanding of the target segments and the key geographies where they operate in. Their focus is mainly the retail used vehicle finance segment with established customer relationships. IKFHF is spearheaded by Ms. Vasantha Lakshmi (Managing Director of IKFHF and Alternative director at IKF), who has been associated with IKF group for over a decade and has a long experience in the asset financing domain working in different segments including sales, credit and manpower management.
- Improving scale of operations:** The AUM of IKF has consistently grown in the last 3 years from Rs 1,031.57 Crs in FY18 to Rs 1,315.15 Crs in FY20 and further to Rs 1,380.64 Crs in H1FY21. On the back of which, IKF reported a total income of Rs 205.69 Crs and profit after tax (PAT) of Rs 27.70 Crs for FY20 when compared to Rs 155.05 Crs and Rs 18.17 Crs respectively for FY19. For H1FY21 the company has reported a total income of Rs 105.34 Crs and PAT of Rs 16.08 Crs. Profitability indicators remain comfortable with return on assets (ROA) and return on equity (ROE) of 2.46% and 10.25% respectively for H1FY21. On a standalone basis, IKFHF has an AUM of Rs 228.32 Crs as on 31 Mar 2020 with total income of Rs 39.71 Crs and PAT of Rs 7.93 Crs for FY 20.

- **Comfortable capitalisation:** IKF is comfortably capitalised with a total capital-to-risk weighted assets ratio (CRAR) of 21.75% as on 30 September 2020 against the regulatory requirement of 15%. The network stood at Rs 313.80 Crs as on 30 September 2020 with a moderate gearing of 3.58x. The network to NNPA cover for IKF for H1FY21 stood at 16.16 times. On a standalone basis, IKFHF is also comfortably capitalised with a total capital-to-risk weighted assets ratio (CRAR) of 49.73% (Tier I CRAR of 48.48%) as against min regulatory requirement of 12%. As on 31 Mar 2020, Tangible Network stood at Rs 49.35 Crs with a moderate gearing of 1.94x.
- **Diversified loan portfolio with well defined credit policy and MIS systems:** IKF alongwith its subsidiary has a diversified product portfolio with major exposure in financing used commercial vehicles (29.57%), used construction equipment (22.96%), Used Cars and MUVs (20.48%) and SME lending (14.11%). IKF has a well-defined credit policy for each of these segments and with a view to manage the growing scale of operations and exposure in each of the segments, the company has been improving its technology platform. Its loan origination, credit appraisal processes and collection process are now tab based resulting in improved turnaround time, collection efficiency and better underwriting process. BWR expects that IKF will continue to extend its expertise in building strong credit policies and MIS systems to IKFHF.

Credit Risks:

- **Average Asset Quality:** IKFs has high exposure to segments like CV/CE segment (52% of its AUM) and SME segment (14%) which are under pressure given the economic slowdown and due to the impact of COVID 19 on the underlying borrowers. The company had given a loan moratorium to the majority of its customers in phase I and on selective basis in phase II of the moratorium announced by the RBI. The overall asset quality is expected to come under some pressure in the near to medium term. However, BWR expects the extent of impact will be limited given IKFs well defined loan origination and credit appraisal processes, underwriting and customized mobile collection module which has helped the company to improve its asset quality. Gross NPA & Net NPA for FY20 has decreased to 2.69% & 1.97% from 3.93% & 2.93% respectively in FY19. It has further moderated to 2.78% and 1.47% respectively in H1FY21. The ability of the company to improve collections during and after the moratorium period and maintain asset quality will be a key monitorable.
- **Moderate scale of operations due to concentrated operations:** IKF operates in nine states covering Andhra Pradesh, Telangana, Gujarat, Tamil Nadu, Karnataka, Maharashtra, Madhya Pradesh, Kerala, and Rajasthan, however, the scale of operations remains low mainly due to regional concentration with southern states contributing to ~70% of total AUM. Going forward, diversifying geographically and increasing the scale of operations will be a key rating monitorable.

- **Challenging operating environment for NBFIs:** Currently, the NBFIs in India, are facing liquidity and funding challenges, resulting in subdued growth/degrowth and potential ALM mismatches in the short term. This is also expected to adversely affect the borrowing profile and profitability of NBFIs. The COVID-19 pandemic has aggravated the liquidity issues of NBFIs, with the loan moratorium announced by the RBI affecting their collection efficiencies and the resultant impact on asset quality and profitability. Furthermore, IKF operates in a highly competitive used vehicle financing space, thereby its ability to demonstrate profitable growth while maintaining asset quality over the medium term will be critical. While IKF has raised long-term funds in the recent past, their ability to raise adequate funding at competitive rates over the medium term will be a key monitorable.

RATING SENSITIVITIES

Positive: IKF's ability on a consolidated basis to showcase good growth in its AUM and improve its asset quality and profitability while maintaining capitalization will be key rating positives.

Negative: Any substantial deterioration in asset quality and profitability from current levels and degrowth in consolidated AUM will be key rating sensitivities

LIQUIDITY: Adequate

Given the nature of loans with an average tenure of 40 months and average ticket size of Rs 8 lakhs and major source of funding being bank loans which forms ~75% of the total source of funds, IKF maintains adequate liquidity as reflected in its cumulative positive mismatches across the buckets as per ALM profile of 30 September 2020. As on 30 November 2020, IKF has cash & cash equivalents of Rs 3.26 Crs, unutilised credit lines of Rs 252.42 Crs and Rs 150 Crs of assets eligible for securitisation which provides additional liquidity cushion.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers as the 6-month moratorium ends and to collect accumulated interest and principal dues on a timely basis after this period will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

COMPANY's / FIRM' PROFILE

IKF Finance Ltd. (IKF) is a Systemically important NBFC registered with RBI as an asset

finance company was incorporated in the year 1991 and has its head office in Vijayawada. It is involved in used vehicle financing and the SME segment. It provides financing to Cars & MUVs, Commercial vehicles, Construction Equipments, three/two wheelers, tractors and SME loans. The company has a presence across nine states viz. Andhra Pradesh, Telangana, Gujarat, Tamil Nadu, Karnataka, Maharashtra, Madhya Pradesh, Kerala, and Rajasthan. IKF is promoted & headed by Mr. V G K Prasad, Managing Director, who has three decades of rich experience in the field of finance and management. The Board includes two Independent Directors and one Nominee Director (representative of Motilal Oswal Private Equity). The promoters hold 55.16% shareholding and Private equity (India Business Excellence Fund - II & II A, fund managed by Motilal Oswal) shareholding is 39.60%.

KEY FINANCIAL INDICATORS: IKF Finance Ltd (Standlaone)

Key Financial Indicators	Units	FY 18	FY 19*	FY 20*
Result Type		Audited	Audited	Audited
AUM	Rs in Crs	1,031.57	1,227.31	1,315.14
Total Income	Rs in Crs	135.79	155.32	205.88
PAT	Rs in Crs	19.16	18.17	27.70
Tangible Networth	Rs in Crs	215.69	268.33	295.83
Gross NPA	%	5.26	3.93	2.69
Gearing	Times	2.67	3.35	3.57
Total CRAR	%	31.70	20.86	21.19
Return on Assets (ROA)	%	2.25	3.65	3.21

*as per IND AS

KEY FINANCIAL INDICATORS: IKF Finance Ltd (Consolidated)

Key Financial Indicators	Units	FY 19	FY 20
Result Type		Audited	Audited
Consolidated AUM	Rs in Crs	1,350.01	1,524.35
Total Income	Rs in Crs	157.79	229.96
PAT	Rs in Crs	18.47	35.88
Tangible Networth	Rs in Crs	260.91	295.91
Total Debt	Rs in Crs	983.79	1133.66
Gearing	Times	3.77	3.83

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (2020)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crores)	Rating			
					Date(s)& Rating(S) assigned in 2019	Date(s) & Rating(s) assigned in 2018	Date(s) & Rating(s) assigned in 2017
1				Dec 2020	24 May 2019	31 Jan 2018	11 Jan 2017
	Secured NCDs	Long Term	50	BWR A Stable	BWR A Stable	BWR A Stable	BWR A Stable
	Unsecured NCDs	Long Term	15	BWR A Stable	Nil	Nil	Nil
	Unsecured NCDs (Tier II)	Long Term	50	BWR A Stable	BWR A Stable	BWR A Stable	BWR A Stable
	Bank Loan Facilities	Long Term	662.44	BWR A Stable	BWR A Stable/BWR A2+ withdrawn	BWR A Stable/BWR A2+ withdrawn	BWR A Stable/A2+
	Commercial Paper	Short Term	10	BWR A1+	Nil	Nil	Nil
2				10 Aug 2020			
	Secured NCDs	Long Term	0	Nil			
	Unsecured NCDs	Long Term	15	BWR A Stable			
	Unsecured NCDs (Tier II)	Long Term	50	BWR A Stable			
	Bank Loan Facilities	Long Term	662.44	BWR A Stable			
	Commercial Paper	Short Term	10	BWR A1			
3				28 Jan 2020			

	Secured NCDs	Long Term	0	Nil			
	Unsecured NCDs	Long Term	15	BWR A Positive			
	Unsecured NCDs (Tier II)	Long Term	50	BWR A Positive			
	Bank Loan Facilities	Long Term	662.44	BWR A Positive			
	Commercial Paper	Short Term	10	BWR A1			
4				17 Jan 2020			
	Secured NCDs	Long Term	0	Nil			
	Unsecured NCDs	Long Term	15	Nil			
	Unsecured NCDs (Tier II)	Long Term	50	BWR A Positive			
	Bank Loan Facilities	Long Term	662.44	BWR A Positive			
	Commercial Paper	Short Term	10	BWR A1			
5				16 Jan 2020			
	Secured NCDs	Long Term	16	Withdrawn			
	Unsecured NCDs	Long Term	15	Nil			
	Unsecured NCDs (Tier II)	Long Term	50	BWR A Positive			
	Bank Loan Facilities	Long Term	662.44	BWR A Positive			
	Commercial Paper	Short Term	10	Nil			

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks and Financial Institutions](#)

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IKF Finance Ltd

ANNEXURE I: Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1	Central Bank of India	Working Capital Limits under Consortium	95	-	95
2	Indian Overseas Bank		52	-	52
3	IDBI Bank Ltd		30	-	30
4	Andhra Bank		77	-	77
5	Punjab National Bank		18.20	-	18.20
6	Federal Bank		15	-	15
7	HDFC Bank	Term Loans under Multiple Banking Arrangement	25	-	8.95
8	AU Small Finance Bank		50	-	14.04
9	Laxmi Vilas Bank		15	-	6.63
10	Andhra Bank		25	-	14.99

11	RBL Bank		15	-	2.21
12	Bank of India		50	-	28.94
13	Yes Bank		25	-	4.85
14	Ujjivan Small Finance Bank		25	-	10.08
15	Woori Bank		35	-	20.42
16	Indusind Bank		10	-	7.79
17	AU Small Finance Bank - II		15	-	9.58
18	Union Bank of India-II (PSL)		50	-	34.58
19	Union Bank of India-II (NPSL)		25	-	18.38
20	State Bank of India		115	-	102.79
21	HDFC Bank		35	-	29.96
22	Utkarsh Small Finance Bank		15	-	12.31
23	Ujjivan Small Finance Bank		10	-	8.75
24	Bank of India		50	-	10
25	DCB Bank Ltd	WCDL	15	-	15
26	Bank of Maharashtra	Tier II Term Loan	15	-	15
Total			844	-	375.24
Grand Total			-	-	662.44

Total Rupees Six Hundred Sixty Two Crores and Forty Four Lakhs only.

ANNEXURE II
INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS

Instrument	Issue Date	Amount in Crs.	Coupon Rate	Maturity Date	ISIN Particulars
Unsecured NCD	3 Oct 2016	30	13.31%	3 Oct 2022	INE859C08012
	18 Jan 2020	20	13.56%	02 Sept 2025	INE859C08061
	30 Jan 2020	12.50	12.16%	30 June 2022	INE859C08053
	17 June 2019	10.50	12.16%	19 June 2022	INE859C08046

Total Rs. Seventy Three Crs Only

ANNEXURE III

List of entities consolidated

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
IKF Home Finance Ltd	100%	Full	Wholly owned subsidiary



For print and digital media

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