

## ANNEXURE I: RATING LETTER, RATING RATIONALE AND DETAILED PRESS RELEASE FROM THE RATING AGENT



A Fitch Group Company

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### India Ratings Assigns Keertana Finserv's NCDs and Bank Loans 'IND BBB+'/Stable

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

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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* | -    | -                | -               | -             | INR5,000                | 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 INR 15.7 billion (FY23: INR 6.2 billion). Furthermore, the loan book grew to INR 19.4 billion at 1QFY25. 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 1QFY25, 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 to increase the share of secured products in the overall AUM mix to 80% from 58% at 1QFY25 (FY24: 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 FY25, 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 network to INR 5 billion at 1QFY25 (FY24: INR 3.8 billion; FY23: INR 1.6 billion). The promoters have infused a total of INR 4 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 INR 5.1 billion at 1QFY25. KFPL had a debt outstanding of INR 16.8 billion at 1QFY25, resulting in leverage (debt/ tangible equity) levels of 3.2x (FY24: 3.3x, FY23: 3.2x). KFPL's capital risk adequacy ratio stood at 26% at 1QFY25 (FY24: 23.6%, FY23: 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 Spohrty Financial Limited (IND A+/Stable), an NBFC-MFI with over 1,600 branches and outstanding AUM of INR 119.7 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 1QFY25, 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 remained 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 HLLAP 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 INR 716 million in FY24 (FY23: INR 160 million). The healthy bottom-line has resulted in robust profitability ratios, with return on assets of 6.31% (annualised) at 1QFY25 (FY24: 5.92%, FY23: 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 1QFY25 (FY24: 33.43%, FY23: 52.88%). 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 Orissa 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, KPPL                |       |       |

### 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>.

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