Prakash Bhawnani
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February 09, 2026

***Dear Sir/Madam,***

***Re: Rating Letter for IKF Finance Limited***

India Ratings and Research (Ind-Ra) has rated IKF Finance Limited's (IKFF) debt instruments as follows:

| Instrument Type | 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 AA-/Stable | Assigned |
| Bank loan facilities | - | - | - | INR1,000 | IND AA-/Stable | Affirmed |

*Yet to be issued

In issuing and maintaining its ratings, India Ratings relies on factual information it receives from issuers and underwriters and from other sources India Ratings believes to be credible. India Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security.

The manner of India Ratings factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in India where the rated security is offered and sold, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

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It will be important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason India Ratings deems sufficient.

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between India Ratings and you or between India Ratings and any user of the ratings.

In this letter, "India Ratings" means India Ratings & Research Pvt. Ltd. and any successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings

Pankaj

**Pankaj Naik**
**Director**

India Ratings & Research
A Fitch Group Company

FitchGroup

**Annexure: Facilities Breakup**

| Instrument Description | Bank Name | Ratings | Outstanding/Rated Amount(INR million) |
|---|---|---|---|
| Bank loan facilities | NA | IND AA-/Stable | 1000.00 |

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### Title

India Ratings Assigns IKF Finance's Non-Convertible Debentures 'IND AA-/Stable; Affirms Existing Ratings

### Brief

India Ratings and Research (Ind-Ra) has rated IKF Finance Limited's (IKFF) debt instruments as follows:

### Details of Instruments

| Instrument Type | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (million) | Rating Assigned along with Outlook/Watch | Rating Action |
|---|---|---|---|---|---|---|
| Commercial paper | - | - | Up to 1 year | INR750 | IND A1+ | Affirmed |
| Bank loan facilities | - | - | - | INR1,000 | IND AA-/Stable | Affirmed |
| Non-convertible debentures* | - | - | - | INR5,000 | IND AA-/Stable | Assigned |

*Yet to be issued

### Analytical Approach

Ind-Ra has fully consolidated IKFF's wholly owned subsidiary IKF Home Finance Limited (IKFH) to arrive at the ratings, referred to as IKF hereafter, given the presence of IKFF representatives on the IKFH board, strong financial and operational linkages between them entities, the use of a common brand name by IKFH and the overlap of branch networks.

### Detailed Rationale of the Rating Action

The rating reflects IKF's adequate capitalisation levels for scaling up the franchise in the medium term, supported by steady internal accruals and regular capital infusions. The ratings also factor in the considerable experience of the company's promoter and senior management team. The ratings are further supported by continued profitable growth in the company's franchise and visibility regarding its future growth plans, with a focus on used commercial vehicles, used construction equipment followed by housing finance loans. The company also has a diversified borrowing mix, with a healthy share of funding from banks and other financial institutions.

Ind-Ra has factored in adequate group-level liquidity with a cumulative surplus in all time buckets of up to one year at end-September 2025. The rating also considers the improving granularisation of the loan book; however, the delinquency in asset quality has inched up in 1HFY26 due to the current operating environment. The ratings remain constrained by limited geographical diversification and the category of customers, with the company financially vulnerable to seasonality and business cycles.

### List of Key Rating Drivers

**Strengths**
- Expansion in franchise and levers in place to further increase scale
- Maintained adequate profitability
- Diversified funding profile
- Experienced management backed by marquee investors

**Weaknesses**
- Limited geographical diversification
- Financially vulnerable borrower segment, but manageable asset quality across business cycles

### Detailed Description of Key Rating Drivers

**Expansion in Franchise and Levers in Place to Further Increase Scale:** IKF's AUM continued to grow organically and rose 37% yoy to INR73,890 million in 1HFY26 (FY25: INR66,620 million; FY24: INR48,110 million), led by an increase in the number of branches to 320 (290; 244). IKFF primarily engages in the financing of used vehicles and secured micro small and medium enterprises (MSME) loans, while housing loans and loan against property are extended by IKFH. Aligned with its strategy, IKF has steadily increased its share of commercial vehicle (CV) and construction equipment (CE) financing, which constituted 51.4% of the AUM in 1HFY26 (FY25: 50.2%; FY24: 45.3%). Within the overall AUM, the off-book portfolio stood at 13.6% in 1HFY26, and the company intends to cap this at 15%. IKF also remains focused on improving portfolio granularity by reducing exposure to higher ticket non-banking financial company (NBFC) and small and medium enterprises (SME) funding. Maintaining the asset quality with franchisee expansion and the company's ability to replicate the business model in new geographies will be key rating monitorable.

At end-September 2025, IKF had a tangible equity base of INR18,450 million (FY25: INR10,637 million; FY24: INR9,242 million). Its leverage (debt/tangible equity) improved to 2.86x in 1HFY26 (FY25: 4.72x; FY24: 3.73x), supported by internal accruals and an equity infusion of INR7,000 million from marquee investors and around INR500 million from the promoter during 1HFY26. The strengthened capital position provides adequate headroom to support medium-term growth. The agency expects IKF to maintain comfortable equity buffers, with a leverage below 4.0x over the medium term.

**Maintained Adequate Profitability**: IKF reported a profit after tax of INR842.8 million in 1HFY26 (FY25: INR1,428.2 million; FY24: INR1,018 million), with a return on average assets of 2.5% (2.67%; 2.61%). While yields improved, the company was able to sustain its net interest margins in 1HFY26 despite elevated cost of funding, thereby supporting the overall profitability. IKF continues to operate in a high-risk, risk-adjusted pricing segment, offering a healthy return profile at this scale. The return on equity stood at 11.59% in 1HFY26 (FY25: 14.37%; FY24: 12.43%) with the moderation in 1HFY26, primarily driven by recent equity infusion. The opex to average AUM increased marginally to 3.77% in 1HFY26 (FY25: 3.70%; FY24: 3.63%), reflecting expansion through network and manpower additions. Its credit cost (provisions and write-offs to average AUM) increased to 1.06% in 1HFY26 (FY25: 0.86%; FY24: 0.51%). The rise was driven by seasonal weakness and the prevailing operating environment, while the higher level in FY25 was attributable to adverse weather patterns. A normalisation of credit costs is anticipated over the upcoming quarters. Ind-Ra expects IKF's profitability to sustain in the near term, supported by operating efficiency, a likely decline in the cost of funding and an ability to grow its loan book with a manageable asset quality.

**Diversified Funding Profile**: The company's funding profile remains well-diversified, with term loans accounting for the majority share at 71%, followed by non-convertible debentures (19%), securitisation transactions (7%) and cash-credit/overdraft facilities (4%) as of 1HFY26. The borrowing base continues to benefit from established relationships with more than 60 lenders, including private and public sector banks, small finance banks, the National Housing Bank (for IKFH), asset management companies and capital market participants. Despite this diversification, the company's blended cost of funds remains relatively elevated at around 10% in 1HFY26. However, management anticipates a moderation in borrowing costs in 2HFY26, supported by the benefit of reduction in MCLR-linked floating-rate exposures and the repricing of high-cost legacy borrowings. The regular addition of new lending partners, coupled with the recent equity infusion, is likely to enhance funding flexibility. Given the scale of operations, the existing lender base is deemed adequate, and the liability profile remains well diversified. Additionally, the company's co-lending arrangements with partner institutions provides an alternative avenue for resource mobilisation.

**Experienced Management backed by Marquee Investors:** IKF has three decades of operating track record and a considerable presence in Telangana, which accounted for 33.3% of the assets under management (AUM) as on 30 September 2025 due to legacy market. The company has seen multiple cycles, and its top management consists of professionals with significant and relevant experience. IKF has strengthened its information technology and management of information systems, and has benefited from the high involvement of key institutional investors such as Norwest Capital LLC, Motilal Oswal Wealth Limited, Creador PE, among others, which together hold around 52.48% stake in IKFF as on 30 November 2025, while the promoters held 35.2% and the remaining stake held by others. IKFF's board of directors comprises the promoter and a family member serving as the chairman and managing director, along with one non-independent director, four independent directors, and one investor-nominee director. Additionally, the group's governance structure reflects overlap, with the chairman and managing director of IKFF concurrently serving as directors on the board of IKFH.

**Limited Geographical Diversification**: IKFF currently operates across nine states and intends to expand into two additional geographies namely Haryana and Chhattisgarh by end of FY26, thereby increasing its footprint to 11 states. Nevertheless, IKFH will remain focused on its six core states, with deeper penetration planned within these markets. The portfolio continues to exhibit high regional concentration, with a significant skew towards the southern region. The four major southern states namely Telangana (33.3%), Andhra Pradesh (13.1%), Tamil Nadu (12.9%), and Karnataka (9.0%), together account for 68.3% of the total AUM, supported by a branch network of 200 across these states. While the company has gradually expanded into newer regions over time, the geographical profile remains concentrated. Ind-Ra believes that continued scale-up in non-southern markets is expected to aid geographical diversification and reduce concentration risk over the medium term.

**Financially Vulnerable Borrower Segment, but Manageable Asset Quality across Business Cycles**: At 1HFYE26, the company's AUM was diversified across commercial vehicles (29.5%), construction equipment (21.9%), home loans (14.1%), cars and multi-utility vehicles (12.6%), loans against property (8.6%), secured SME (7.5%), NBFC lending (3.9%) and the balance in tractors, two-wheelers and three-wheelers. The company maintains a strong presence in the southern region as a used-vehicle financier, with over 95% of its vehicle portfolio comprising pre-owned assets. IKFF's borrower base remains economically vulnerable, given its focus on individual borrowers in the used-vehicle segment and small business owners in the MSME segment, predominantly across rural and semi-urban geographies. Consequently, softer-bucket delinquencies have historically remained elevated and volatile. Nevertheless, the company has demonstrated an ability to navigate through cycles, with 90+ days past due rising but remaining manageable at 2.1% in 1HFY26 (FY25: 1.5%; FY24: 1.3%). Write-offs also remained contained at INR183 million (0.25% of AUM) in 1HFY26.

The gross non-performing asset increased to 2.28% in 1HFY26 (FY25: 2.03%; FY24: 2.01%), although the company continued to exercise control over delinquencies while maintaining an adequate provision coverage ratio of 34.2%. Additionally, as part of its de-risking strategy, the company has improved portfolio granularity by reducing high-ticket exposures to NBFCs and MSMEs. Ind-Ra believes that the company's ability to sustain growth while preserving asset quality in existing and newer geographies will remain a key monitorable.

**Liquidity**

**Adequate**: As per IKF's asset-liability management statement, as on 30 September 2025, there was no cumulative mismatch in any time bucket up to one year. At end-December 2025, the company had INR5,369 million of cash and cash equivalents, and undrawn bank lines of INR10,429 million, which, are sufficient to meet the company's debt repayment of INR4,809 million until end-March 2026 even without factoring in the collection during the period. The management maintains a policy to keep minimum surplus liquidity for the next two months' debt repayment and operating expenses. The company can also raise liquidity through the securitisation of its portfolio. Even under Ind-Ra's stress case, which assumes a delay in inflows, the liquidity profile is reasonable.

**Rating Sensitivities**

**Positive:** The following events could collectively lead to a positive rating action
- continued and significant growth in the scale of operations;
- continued geographic diversification;
- sustained profitability;
- continued improvement in funding profile and cost of funding relative to peers'; and
- a demonstrated ability to manage its asset quality.

**Negative**: Events that could, individually or collectively, lead to a negative rating action are:
- deterioration in the asset quality and high credit costs, resulting in a material capital impairment;
- the consolidated leverage (debt/tangible equity) exceeding 4.0x, on a sustained basis, over the medium term;
- challenges in mobilising funds and an inability to maintain adequate liquidity.

**Disclosures for CE Rating**

**Disclosures for Provisional Rating**

**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 IKFF, 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.

**Any Other Information**

Not applicable

**About the Company**

IKFF is a NBFC that commenced operations in 1991 with the objective of catering to the underpenetrated used vehicle financing segment. The company later expanded into home loans and loan against property products through IKFH, which started operations in 2017 and was converted into a fully owned subsidiary in FY25. IKFH registered as a housing finance company. Both entities are collectively known as IKF, with their home state being Telangana.

As of 1HFY26, IKFF operates 199 branches across nine states, while IKFH operates 121 branches across six states, resulting in a combined network of 320 branches, with a majority presence in the southern region. The group has an employee strength of over 2,850. IKF is promoted by Mr. V. G. K. Prasad and is supported by private equity investors.

**Key Financial Indicators**

| Particulars (INR million)- IKF (Consolidated) | 1HFY26 | FY25 | FY24 |
|---|---|---|---|
| Total tangible assets | 72,698 | 62,406 | 44,710 |
| Total tangible equity | 18,450 | 10,639 | 9,242 |
| Net profit/loss | 843 | 1,428 | 1,018 |
| Return on average assets (%) | 2.5 | 2.67 | 2.61 |
| Equity/assets (%) | 25.4 | 17 | 20.7 |
| Leverage (debt/tangible equity) (x) | 2.86 | 4.72 | 3.73 |
| Gross non-performing assets (%) | 2.28 | 2.03 | 2.01 |
| Source: IKF, Ind-Ra's analysis | | | |

| Particulars (INR million)- IKFF (Standalone) | 1HFY26 | FY25 | FY24 |
|---|---|---|---|
| Total tangible assets | 60,632 | 50,109 | 36,747 |
| Total tangible equity | 17,979 | 9,874 | 8,793 |
| Net profit/loss | 650 | 1,080 | 770 |
| Return on average assets (%) | 2.35 | 2.49 | 2.39 |
| Equity/assets (%) | 29.7 | 19.7 | 23.9 |
| Total capital ratio (%) | 30.86 | 20.86 | 26.51 |
| Leverage (debt/tangible equity) (x) | 2.31 | 3.98 | 3.11 |
| Gross non-performing assets (%) | 2.48 | 2.24 | 2.35 |
| Source: IKF, Ind-Ra's analysis | | | |

| Particulars (INR million)- IKFH (Standalone) | 1HFY26 | FY25 | FY24 |
|---|---|---|---|
| Total tangible assets | 15,301 | 13,780 | 9,513 |
| Total tangible equity | 3,708 | 2,405 | 2,124 |
| Net profit/loss | 179 | 338 | 237 |
| Return on average assets (%) | 2.46 | 2.9 | 2.9 |
| Equity/assets (%) | 24.2 | 17.5 | 22.3 |
| Total capital ratio (%) | 37.79 | 27.79 | 32.88 |
| Leverage (debt/tangible equity) (x) | 3.01 | 4.54 | 3.37 |
| Gross non-performing assets (%) | 1.55 | 1.23 | 0.76 |
| Source: IKF, Ind-Ra's analysis | | | |

**Applicable Criteria**

- Evaluating Corporate Governance
- The Rating Process
- Financial Institutions Rating Criteria
- Non-Bank Finance Companies Criteria

**Status of Non-Cooperation with Previous Rating Agency**

Not applicable

**Rating History**

| Instrument Type | Current Rating/Outlook | | | Historical Rating/Outlook |
|---|---|---|---|---|
| | Rating Type | Rated Limits (million) | Rating/Outlook | 7 January 2026 |
| Commercial paper | Short-term | INR750 | IND A1+ | IND A1+ |
| Bank loan facilities | Long-term | INR1,000 | IND AA-/Stable | IND AA-/Stable |
| Non- convertible debentures | Long-term | INR5,000 | IND AA-/Stable | - |

**Complexity Level of the Instruments**

| Instrument Type | Complexity Indicator |
|---|---|
| Commercial paper | Low |
| Bank loan facilities | Low |
| Non- convertible debentures | Low |

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

**Annexure**

Not Applicable

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**SOLICITATION DISCLOSURES**

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India Ratings and Research (Ind-Ra) is India's most respected credit rating agency 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 six branch offices located at Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad and Kolkata. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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