

November 10, 2014

CARE ASSIGNS 'CARE AAA' RATING TO PROPOSED LONG TERM DEBENTURES OF KOTAK MAHINDRA PRIME LTD.

Rating

Instrument	Rated Amount (Rs. Crore)	Ratings ¹	Remarks
Proposed Long term Debentures	200.00	CARE AAA (Triple A)	Assigned

Rating Rationale

The rating factors in KMPL's strong parentage (KMPL is wholly owned by entities in Kotak Group), its strategic importance within the Kotak Group, shared brand identity as well as strong business and operational linkages with the group. By virtue of strong parentage and comfortable capitalization at the group level, the company benefits from strong capital raising ability. On the managerial front, KMPL's board and senior management comprises experienced senior executives of Kotak Group. The rating further factors in KMPL's strong demonstrated track record across business cycles in auto finance business while maintaining strong asset quality, healthy profitability parameters, comfortable capitalization levels, comfortable liquidity profile and prudent risk management practices. The rating also takes in account KMPL's exposure to relatively riskier segment such as loans against shares and real estate backed corporate lending. Continued Kotak Group ownership and support, its strategic importance within the group, asset quality & profitability are the KMPL's key rating sensitivities.

Background

Kotak Mahindra Prime Ltd. is a wholly owned Kotak Group subsidiary primarily engaged in passenger car financing business. Incorporated in February 1996 as Komaf Auto Finance Pvt. Ltd., the company's name was changed to Kotak Mahindra Primus Ltd in October 1996. Initially, the company was formed as a joint venture between Kotak Mahindra Bank (KMB) holding 60% stake and Ford Credit International Inc (FCI) holding 40% stake. In June 2005, the joint venture was realigned and FCI's stake was transferred to Kotak group, post which the company's name was changed to Kotak Mahindra Prime Ltd. (KMPL). Currently, Kotak Mahindra Bank and Kotak Securities Ltd. hold 51% and 49% stake respectively in KMPL.

As on June 30, 2014, KMPL's loan portfolio (incl. credit substitutes) and tangible networth stood at Rs.18576 crore and Rs.2928 crore respectively. The company operates through a network of 69 branches spread across northern, western and southern India. During FY14, KMPL reported PAT of Rs.491 crore [Q1 FY15: Rs.120 crore] on total income of Rs.2525 crore [Q1 FY15: Rs.643 crore]. KMPL had healthy NIMs (calculated on the basis of average of opening and closing total asset balances) of above 4.50% during FY14. In addition to healthy margins, the company's profitability is further supported by operating efficiencies and strong asset quality.

As on June 30, 2014, KMPL's capital adequacy ratio stood at 16.99% [March 2014: 17.70%] with Tier I Capital adequacy of 13.65% [P.Y.: 14.22%]. The company has high proportion of better quality Tier I capital which also provides adequate headroom for raising additional capital in the form of Tier II issuances. KMPL has strong asset quality parameters. As on June 30, 2014, the KMPL's GNPA and NNPA calculated on loan portfolio (incl. credit substitutes) stood at 0.66% [March

¹ Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications

2014: 0.60%] and 0.35% [March 2014: 0.31%] respectively. Net NPA/ tangible networth stood at 2.21% [March 2014: 2.08%].

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