

Kogta Financial (India) Limited

January 02, 2019

Ratings

Facilities/ Instrument	Amount (Rs. crore)	Rating ¹	Remarks
Long term bank facilities	200	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Revised from CARE BBB; Stable [Triple B; Outlook: Stable]
Total	200 (Rupees Two Hundred crore only)		
Non-Convertible Debenture Issue	40	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Revised from CARE BBB; Stable [Triple B; Outlook: Stable]
Total Instruments	40 (Rupees Forty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating of Kogta Financial (India) Ltd (KFL) is mainly on account of equity infusion of Rs.154.25 crore by the PE investors in November, 2018 which led to augment in net-worth and Capital Adequacy ratio. Further, revision in the rating also takes cognizance of growth in scale of operations with increased geographical diversification in FY18 and H1FY19.

The rating continues to derive strength from the long experience of the promoters in the financing industry, improvement in asset quality, diversified product portfolio and expansion of resource base over a period of time. The rating also derives strength from long-standing track record of KFL in the auto financing segment with primarily secured nature of portfolio and established Management Information System (MIS).

The rating, however continue to remain constrained on account of its moderate earnings profile, relatively riskier borrower segment with moderate seasoning of loan portfolio and moderate asset quality with moderate geographical concentration.

KFL's ability to increase its scale of operations with greater geographical as well as resource base diversification while improving its asset quality and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Capital infusion resulting in improvement in capital adequacy ratio: KFL has received equity in the form of CCPS of Rs.154.25 crore in November, 2018 from Morgan Morgan Stanley Private Equity Asia (Rs.114.25 crore) and IIFL Seed Ventures (Existing investor, Rs.40 crore) in November, 2018. It will augment the net-worth to around Rs.237 crore by the end of March 31, 2019. Further, the addition of new PE fund will increase the experience on board as the nominee director of PE fund joined the Board of Directors.

Experienced Promoters: Mr. Radha Krishan Kogta (Chairman), key promoter of the company, has vast experience of more than 17 years in the finance sector especially vehicle financing and has been instrumental in driving the growth of the company since inception. Currently, Mr. Arun Kogta (having more than a decade of experience) is looking after the operations and geographical expansion activities while Mr. Varun Kogta (having more than a decade of experience) is looking after Finance, IT and HR functions. Both of them are also involved in strategic decision making.

Moderately diversified loan portfolio: The loan portfolio is moderately diversified with wide range of products including CV (comprising 56% of total O/s as on March 31, 2018), MUV (11%), Car loans (15%), LAP (8%) and short term personal loans (2%). The company also finances two wheeler loans and tractor loans which constituted the balance portfolio.

Improvement in loan portfolio albeit moderate seasoning with broader resource base: KFL's outstanding own book portfolio has increased to Rs.348.94 crore as on March 31, 2018 from Rs.204.88 crore as on March 31, 2017. KFL's total outstanding AUM (including securitized portfolio) increased by around 79.66% from Rs.238.51 crore as on March 31, 2017 to Rs.428.51 crore as on March 31, 2018. Further, the AUM stood at Rs.530.69 crore as on September 30, 2018. KFL is gradually increasing its resource base and currently enjoys bank facilities from 8 banks and 6 financial institutions. However, a large proportion of its loan book was built last year for which the seasoning is moderate and the performance of the recently built portfolio needs to be observed in the future.

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

Primarily secured nature of business: KFL has secured portfolio for vehicle financing and LAP while short term personal loans are unsecured in nature which formed small portion of around 2% of total AUM (own book + securitized) as on September 30, 2018.

Established MIS system: KFL has developed an in-house ERP system for online monitoring of all loan accounts and generation of required MIS reports. KFL has its own in-house IT team which keeps upgrading the systems on regular basis based on necessity.

Moderate liquidity position: Liquidity position of KFL as on March 31, 2018 has been comfortable with working capital limit utilization remaining comfortable at 41.86% for 12 months ending November, 2018. KFL has comfortable ALM with cumulative mismatch in 6m-1year bucket mainly due to considering maturity of outstanding CC limit of Rs.54.58 crore as on March 31, 2018. Further, the company has raised equity of Rs.154.25 crore in November which led to comfortable liquidity position. Further, the company has unencumbered cash and cash equivalents of Rs.14.31 crore as on March 31, 2018.

Key Rating Weaknesses

Moderate asset quality with moderate earnings profile: KFL's NIM has been declining for last three years mainly because of increase in debt availed to fund its loan portfolio. KFL's average lending rate stood at around 22.07% during FY18 as compared to 21.62% during FY17. ROTA has been declining for the last three years and remained moderate at 2.51% in FY17 mainly because of increase in operating expenses and provisioning. Further, ROTA has improved to 2.62% during FY18 as compared to 2.51% during FY17 mainly due to improvement in average borrowing cost though the operating expenses has increased following geographical expansion of operations. KFL in controlling delinquencies in harder bucket as PAR (90 dpd) for AUM remained at 3.27% as on March 31, 2018 as compared to 4.15% as on March 31, 2017. Further PAR (90 dpd) for AUM remained at 4.64% as on September 30, 2018.

Moderate geographical concentration; gradual effort to diversify: KFL has presence mainly in Rajasthan, Gujarat and Maharashtra with 47%, 27% and 21% of total outstanding portfolio as on September 30, 2018 respectively as against 50%, 40% and 10% respectively as on March 31, 2017. KFL has commenced operations in Madhya Pradesh and Delhi NCR during FY18 to broad base its geographical presence and has been able to increase its portfolio to Rs.22.78 crore and Rs.6.12 crore respectively as on September 30, 2018.

Industry Outlook: Due to subdued economic environment, last three years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability. Also with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90 -day NPA recognition norm.

Analytical approach: Standalone

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Non-banking Financial Companies](#)

[Financial Sector Ratios](#)

About the Company

Incorporated in 1996, Kogta Financial (India) Ltd. (KFL) is a Non deposit taking Non-Banking Finance Company (NBFC-ND) mainly operating in the states of Rajasthan, Gujarat, Maharashtra and Madhya Pradesh. It is primarily engaged in used and new vehicle financing including commercial vehicles, multi utility vehicles, cars, agriculture based vehicles, etc apart from financing of loan against property and personal loans.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	40.13	64.20
PAT	4.97	8.33
Interest coverage (times)	1.36	1.41
Total Assets	242.01	392.68
Net NPA (%)	2.02	2.71
ROTA (%)	2.51	2.62

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	74.00	CARE BBB+; Stable
Fund-based - LT-Term Loan	Sept 2018	12.25%	April, 2021	126.00	CARE BBB+; Stable
Debentures-Non Convertible Debentures	April 13, 2017	12.23%	April 2020	40.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	74.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (08-Jan-18) 2)CARE BBB-; Positive (28-Jul-17) 3)CARE BBB-; Stable (11-Apr-17)	1)CARE BBB- (16-Jun-16) 2)CARE BBB- (13-Jun-16)	-
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (08-Jan-18) 2)CARE BBB-; Positive (28-Jul-17) 3)CARE BBB-; Stable (11-Apr-17)	1)CARE BBB- (13-Jun-16)	-
3.	Fund-based - LT-Term Loan	LT	126.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (08-Jan-18) 2)CARE BBB-; Positive (28-Jul-17) 3)CARE BBB-; Stable (11-Apr-17)	1)CARE BBB- (16-Jun-16)	-
4.	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (08-Jan-18) 2)CARE BBB-; Positive (28-Jul-17) 3)CARE BBB-; Stable (11-Apr-17)	-	-

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