

## Kosamattam Finance Limited (Revised)

September 02, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Subordinated debt-IV	24.79	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Non-convertible debentures-VII	33.71	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Subordinated debt-III	-	-	Withdrawn
Non-convertible debentures-VI	-	-	Withdrawn
<b>Total long-term instruments</b>	<b>58.50</b> <b>(₹ Fifty-eight crore and fifty lakh only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the various debt instruments of Kosamattam Finance Limited (KFL) continue to factor in the experience of the promoter, the long track record of operations, stable asset quality, stable profitability, adequate liquidity position, and established risk management systems. The ratings, however, are constrained by the moderate capitalisation levels, characterised by high gearing, geographical concentration of loan portfolio, concentrated resource profile, concentration in a single asset class which is exposed to market risks related to gold, and the intense competition in the gold loan business.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the non-convertible issue-VI and subordinated debt-III of KFL with immediate effect, as the company has repaid the aforementioned bonds in full and there is no amount outstanding under the said issues.

### Rating sensitivities

#### Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in profitability with return on total assets (ROTA) of above 2% on a sustained basis along with improvement in the scale of operations.
- Significant infusion of equity.

#### Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Moderation in profitability with ROTA of less than 1% on a sustained basis.
- Deterioration in the asset quality with gross non-performing assets (GNPA) of above 3% on a sustained basis.
- Weakening of the capital adequacy levels below 17%.

### Detailed Description of the key rating drivers

#### Key Rating Strengths

##### Strong brand value and experienced promoters

The Kosamattam group was founded by Chacko Varkey in 1927, with the main activity being the chit fund business. In 1980, the group ventured into the gold loan business under Mathew Cherian. With the experience gained from this venture, the group took over an already established non-banking financial company (NBFC) in 2004 and changed its name to Kosamattam Finance Limited. Over the years, under Mathew Cherian and his son-in-law, George Thomas, the company has expanded and strengthened its branch network predominantly across south India.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Adequate risk management systems**

KFL has put in place adequate credit-appraisal systems. The branch employees have been trained to appraise the quality of gold jewellery provided as security against loans by prospective borrowers, which is subsequently verified by the gold appraiser. The company has implemented systems for ensuring gold security and reducing custodial risks, including highly-secured vaults with dual control and insurance. The internal audit is conducted once every six months across the branches, covering disbursements, adherence to process, collection, gold stock, etc. Gold audits is conducted once in three months. Surprise audits and cash verification are also done in all the branches.

**Moderate capitalisation levels; however, promoters have been infusing capital regularly to support growth**

To support growth, the promoters have been infusing capital on a need basis over the years. The capital adequacy ratio (CAR) and Tier-I CAR, as on March 31, 2022, stood at 18.65% and 14.45%, respectively, as against 18.60% and 13.58%, respectively, as on March 31, 2021. During FY22, KFL raised capital of ₹58 crore by way of rights issue. The overall gearing of the company stood at 6.03x as on March 31, 2022, as against 6.68x as on March 31, 2021. The timely infusion of capital to contain the gearing levels remains critical from the rating perspective.

**Stable asset quality**

The gold loans segment is backed by security such as gold jewellery, and that is a liquid and safe security. KFL is concentrating on gold loans with a tenure up to nine months to reduce the risk of price volatility. The GNPA and net non-performing assets (NNPA) stood at 1.55% and 0.95%, respectively, as on March 31, 2022, as against 1.45% and 0.87%, respectively, as on March 31, 2021. The majority of the NPA is from the loan against property (LAP) loan portfolio, for which KFL has stopped disbursements since April 2019.

In order to maintain the NPA at comfortable levels, the company has already restricted the maximum tenure of the gold loans to nine months. In case of non-recoverability of interest from the customers, the auction process will be initiated from the end of the ninth month to minimise the interest and principal loss from auction. Hence, the gold price risk is mitigated to a certain extent. The GNPA and NNPA as on June 30, 2022, stood at 1.63% and 1.03%, respectively.

**Stable profitability**

The loan portfolio witnessed a growth of 15%, from ₹3,510 crore as on March 31, 2021, to ₹4,043 crore as on March 31, 2022. As on June 30, 2022, the loan portfolio stood at ₹4,163 crore. The portfolio per branch for gold loans has shown an improvement from ₹3.33 crore as on March 31, 2021, to ₹3.70 crore as on March 31, 2022. The net interest margin (NIM) declined to 5.95% in FY22 (PY: 6.11%) on account of auction loss during FY22 and competition in the market. The operating expenses to average total assets remained stable, at 3.30% in FY22 from 3.32% in FY21. The ROTA stood at 2.01% in FY22 (PY: 1.77%). During Q1FY22, the ROTA moderated to 1.32%.

**Key Rating Weaknesses****Concentration of loan portfolio in gold loan segment**

Gold constituted around 99% of the total assets under management (AUM) as on March 31, 2022, as against 98% as on March 31, 2021. LAP, microfinance, and other loans (staff loans, business loans, etc) contributed to the remaining portfolio as on March 31, 2022. The proportion of gold loans to the total loan portfolio is expected to remain higher in the medium term.

**Geographical concentration**

The loan portfolio of KFL is concentrated towards Southern India. As on March 31, 2022, Tamil Nadu constituted around 55% (PY: 53%) of the total gold loan portfolio, followed by Kerala with 21% (PY: 20%), Karnataka with 15% (PY: 17%), and other states with 10% (PY: 10%). The company has been making consistent efforts to increase the loan portfolio by way of improving the AUM per branch of the existing branches. However, the portfolio is expected to remain concentrated in South India over the medium term.

### Concentrated resource profile

The borrowing through the public issue of non-convertible debentures (NCDs) has been the major source of funding over the past few years for KFL, with a higher appetite in the Kerala market for the NCDs. The borrowings from NCDs and sub-debt together constituted accounted for 66% of the total borrowings as on March 31, 2022, which has reduced from 75% as on March 31, 2021. The share of bank borrowings has increased to 32% as on March 31, 2022, as against 25% as on March 31, 2021. The company has 2% of its borrowings from financial institutions as on March 31, 2022. The company has been making efforts to improve the proportion of bank borrowings in the resource profile. However, the resource profile is expected to remain concentrated over the medium term.

### Intense competition in the gold loan business

Geographically, the gold loan financing industry is predominantly placed in Southern India, with an active interest of both, the banks and the large NBFCs operating out of this region. KFL faces heavy competition from larger players who are offering gold loans in the regions where the company operates.

### Liquidity: Adequate

The asset and liability management (ALM) profile as on June 30, 2022, is at a comfortable level with no cumulative negative mismatches for up to one year. The ALM is adequate mainly on account of the shorter tenor of loans provided by KFL with access to longer tenure borrowings. As on June 30, 2022, the company had a cash and bank balance of about ₹427 crore.

### Analytical approach: Standalone

### Applicable criteria:

[Criteria on assigning outlook and credit watch to credit ratings](#)

[CARE Ratings' policy on Default Recognition](#)

[Financial ratios-Financial sector](#)

[CARE Ratings' rating methodology for NBFCs](#)

[Policy on Withdrawal of Ratings](#)

### About the company

KFL, a non-deposit-taking NBFC registered with the Reserve Bank of India (RBI) is a part of the Kosamattam group. The group was founded by Chacko Varkey in 1927, with the main activity being the chit fund business. In 1980, the group ventured into the gold loan business under Mathew Cherian (grandson of Chacko). In 2004, the group acquired an already established gold loan NBFC in Kerala called 'Standard Shares and Loans Pvt Ltd' and changed its name to Kosamattam Finance Private Ltd.

Gold loans constitute around 99% of the loan portfolio of KFL as on March 31, 2022. Apart from gold loans, the company also offers other products such as LAP, microfinance loans, demand loans, and other loans such as staff loans. KFL is also an RBI-authorized money changer and offers forex services like buying and selling foreign currency and remittance abroad through swift and foreign currency demand drafts. As on March 31, 2022, the company had a loan portfolio of ₹4,043 crore. The company operates through 988 branches across eight states and one Union Territory as on March 31, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	542	625	164
PAT	65	80	15
Interest coverage (times)	1.40	1.38	1.20
Total Assets	4,046	4,594	4,758
Net NPA (%)	0.87	0.95	1.03
ROTA (%)	1.77	1.85	1.32

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

**Bank lender details for this company:** Annexure-5

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debt-Subordinate debt-III	INE403Q08043	-	-	-	-	Withdrawn
Debt-Subordinate debt-III	INE403Q08050	-	-	-	-	Withdrawn
Debentures-Non-convertible debentures-VI	INE403Q07391	-	-	-	-	Withdrawn
Debentures-Non-convertible debentures-VI	INE403Q07409	-	-	-	-	Withdrawn
Debentures-Non-convertible debentures-VII	INE403Q07474	June 09, 2016	11.15%	December 08, 2022	12.35	CARE BBB+; Stable
Debentures-Non-convertible debentures-VII	INE403Q07482	June 09, 2016	11.25%	December 08, 2022	21.35	CARE BBB+; Stable
Debt-Subordinate debt-IV	INE403Q08068	September 29, 2016	11.00%	March 28, 2023	10.60	CARE BBB+; Stable
Debt-Subordinate debt-IV	INE403Q08076	September 29, 2016	11.25%	March 28, 2023	14.19	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (January 03, 2020)
2.	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (December 04, 2020)	1)CARE BBB-; Stable (January 03, 2020)
3.	Debt-Subordinate debt	LT	-	-	-	-	1)Withdrawn (December 04, 2020)	1)CARE BBB-; Stable (January 03, 2020)
4.	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (April 02, 2019)
5.	Debt-Subordinate debt	LT	-	-	-	1)Withdrawn	1)CARE BBB; Stable	1)CARE BBB-; Stable

						(September 06, 2021)	(December 04, 2020)	(January 03, 2020)
6.	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (September 06, 2021)	1)CARE BBB; Stable (December 04, 2020)	1)CARE BBB-; Stable (January 03, 2020)
7.	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (December 04, 2020)	1)CARE BBB-; Stable (January 03, 2020)
8.	Debt-Subordinate debt	LT	-	-	-	1)CARE BBB+; Stable (September 06, 2021)	1)CARE BBB; Stable (December 04, 2020)	1)CARE BBB-; Stable (January 03, 2020)
9.	Debentures-Non convertible debentures	LT	-	-	-	1)CARE BBB+; Stable (September 06, 2021)	1)CARE BBB; Stable (December 04, 2020)	1)CARE BBB-; Stable (January 03, 2020)
10.	Debentures-Non convertible debentures	LT	33.71	CARE BBB+; Stable	-	1)CARE BBB+; Stable (September 06, 2021)	1)CARE BBB; Stable (December 04, 2020)	1)CARE BBB-; Stable (January 03, 2020)
11.	Debentures-Non convertible debentures	LT	-	-	-	-	1)Withdrawn (December 04, 2020)	1)CARE BBB-; Stable (January 03, 2020)
12.	Debt-Subordinate debt	LT	24.79	CARE BBB+; Stable	-	1)CARE BBB+; Stable (September 06, 2021)	1)CARE BBB; Stable (December 04, 2020)	1)CARE BBB-; Stable (January 03, 2020)

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA**

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Debt-Subordinate Debt	Simple

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

**Annexure-5: Bank lender details for this company: NA**

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**About us:**

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