IKF Home Finance Limited

October 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	500.00 (Enhanced from 250.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**500.00 (₹ Five Hundred Crore Only)**		
Subordinate Debt	25.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Non-Convertible Debenture Issue – I	100.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Non-Convertible Debenture Issue – II	50.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	**175.00 (₹ One Hundred Seventy-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instruments of IKF Home Finance Limited (IKFHF) continues to derive strength from strong parentage of IKF Finance Limited (IKF) and the resultant synergies in terms of business linkages with common brand identity, shared infrastructure and treasury function besides management and financial support from the parent entity. The rating also factors in the comfortable capital adequacy levels, increase in scale of operations during FY22 (refers to the period April 01 to March 31) with operations remaining profitable, adequate asset quality though seasoning continues to be low and evolving systems & process. The rating is, however, constrained by the limited track record and relatively small scale of operation, concentrated resource profile, regional concentration of the portfolio, low seasoning of portfolio and inherent risks associated with the borrower profile mostly being self-employed in the informal segment.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in the credit risk profile of the parent, IKF Finance Limited.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Weakening in the credit risk profile of the parent, IKF Finance Limited
- Significant deterioration in asset quality and profitability levels
- Moderation in gearing levels with overall gearing exceeding 5x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage with business synergies, operational & financial linkages:

IKFHF is a subsidiary of IKF Finance Limited (IKF, rated CARE A; Stable) and is of strategic importance to IKF group. By virtue of parent subsidiary relationship, IKF provides management and operational support in terms of usage of established branch network & risk management systems of IKF, sourcing of loans, etc. Besides, the company enjoys the shared 'IKF' brand name and access to common group treasury enabling the company to raise resources at competitive rates from banks, financial institutions, and capital markets. Also ~50% of the branches of IKFHF are co-located with the parent with cumulative infusion from the parent aggregating to Rs. 58 crore until June 2022, out of this Rs. 17 crore was infused during FY22.

CARE Ratings Limited continues to factor in the expected support from IKF going forward.

Experienced management personnel:

Established in 2002, the group is headed by Mr. V G K Prasad who is present on both the boards of the parent & IKFHF. He has experience of more than three decades in asset financing business and the business operations of the group has benefited from his long-established track record in the auto finance segment and the vast industry network developed over the years. IKFHF is headed by Ms. Vasantha Lakshmi (Managing Director), who has nearly a decade of experience in the asset financing domain

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

working in different aspects of the segment including sales, credit and manpower management. They are well supported by a team of qualified and experienced management team.

Evolving management information system with increase in digitalization
IKFHF had commenced its operation in FY17 and the company has been improving its MIS/technology platform to manage the business growth. With this view, it has implemented customized software by A3S, for ease of underwriting process and to ensure lower turn-around time. Further, IKFHF has support & guidance from its parent company and has setup efficient credit underwriting processes and collection & recovery mechanism. 80% of the company's underwriting is through digital means. Going forward, with the expansion in AUM and branch structure, the evolution of the technology & system remains to be seen.

Increase in scale of operations during FY22 with operations remaining profitable:
AUM of IKFHF grew by 49% during FY22 and stood at Rs. 429 crore as on March 31, 2022, with housing loan forming around 73% of portfolio (as on June 30, 2022: 71%). The growth in AUM was led by higher disbursements done during the year. On a y-o-y basis, the disbursements of the company improved from Rs. 95 crore during FY21 to Rs. 208 crore during FY22. During Q1FY23, total disbursements stood at Rs. 74.26 crore. The company has expanded its branch network from 23 branches as on March 31, 2021 to 38 branches as on March 31, 2022 with entrance into Gujarat as a new state. Going forward with plans for branch expansion, opex is expected to remain higher in the near term.

NIM (adjusted for off book) witnessed some moderation during FY22 to 4.62% as against 5.74% during FY21 since the company had done major disbursements in the second half of FY22. Moreover, it had stopped LAP for some months post covid and was disbursing only lower yield HL loans. The ability of the company to improve profitability while growing the scale of operations remains a key rating driver.

Comfortable capitalisation levels
Aided by the capital infusions from parent in the past, capital adequacy stood comfortable with a CAR of 48.10% (PY: 48.08%) as on March 31, 2022 against the regulatory requirement of 15%. As on June 30, 2022, CRAR stood at 39.89%. Tier-I Capital stood at 46.85% (PY: 46.83%) as on March 31, 2022. As on June 30, 2022, Tier I capital stood at 38.64%.
Capital base acts as a cushion and also enables them to absorb the elevated operating costs in its nascent stages as they increase in size and scale or any other unexpected losses which may arise due to an evolving business scale.

Good asset quality though seasoning is low:
The asset quality continues to remain satisfactory. GNPA stood at 1.10% as on June 30, 2022 as against 0.95% respectively as on March 31, 2022 (March 31, 2021: 0.94%). Post implementation of the IRACP norms, the GNPA would increase, however, the incremental slippage is expected to remain lower. The outstanding OTR assets stood at Rs. 7.76 crore as on March 31, 2022 & Rs. 7.42 crore as on June 30, 2022 which formed around 1.81% & 1.55% of its AUM. As a result, gross stressed assets (GNPA + restructured) stood at 3.27% as on March 31, 2022 as against 5.97% as on March 31, 2021. Current Collection efficiency stood at 95.60% in August 2022. Though the asset quality remained comfortable, the portfolio seasoning continues to remain low and its asset quality performance through different economic cycles and geographies is yet to be established.

Going forward, the ability of the company to maintain asset quality considering the expansion in new regions would be critical to the earnings profile of the company. With loans primarily towards the needs of the self- employed customers in the informal low and middle-income segment asset quality metrics is highly susceptible to the impact of any economic downturn.

Key Rating Weaknesses
Limited track record and small scale of operations with geographically concentrated portfolio:
IKFHF started operations in FY17 and hence the track record of the company remains limited. Although the AUM has witnessed continuous growth over past few years, the scale of operations continues to remain relatively small with AUM of Rs. 429 crore (Rs. 478 crore as on June 30, 2022) and a tangible net worth of Rs. 85 crore as on March 31, 2022 (June 30, 2022: Rs. 87 crore). Though the company has entered Gujarat during FY22, the portfolio remains concentrated in South India with Telangana constituting for 35% of the portfolio outstanding as on June 30, 2022 (March 31, 2022: 34%). IKFHFs portfolio is expected to remain concentrated in the South India states in the medium term.

Concentrated resource & funding profile:
The major funding mix of IKFHF changed from NCD (from PSU banks under TLTRO) during FY21 to term loans from banks during FY22. As on June 30, 2022, term loans from banks stood at 54% followed by NCD from PSU banks raised under TLTRO at 26% of the total borrowings. Term loans from NBFCs stood at 12% whereas NHB Refinance stood at 8% as on June 30, 2022. Weighted average cost of funding as on June 30, 2022 stood at 9.63% p.a.

The company has integrated treasury with its parent company along with accessibility to NHB borrowings which helps to maintain its cost of funds. Moreover, integrated treasury is expected to benefit IKFHF in availing funding from large banks and financial institutions using parent's relationship going forward. The integrated treasury and support from IKF are also expected to help the company in managing the natural asset liabilities mismatches in its longer tenure housing loans vis-à-vis funding profile having relatively shorter tenure. Also, to manage the LAP portfolio, the company is also exploring the co-lending option which might help to improve its spread and maintain profitability.

Inherent risk associated with borrower class:
IKFHF is primarily lending towards the needs of the self-employed customers in the informal low and middle-income segment. The company is lending at average yield of 16% and as the segment is highly susceptible to the impact of any adverse economic downturn, the inherent risk associated with this customer profile remains. As on June 30, 2022, 72% were self-employed and remaining 28% were salaried segment.
The ability of the company to limit credit costs while maintaining the sustainable yield and good asset quality while increasing the scale of operations would be important from the credit perspective.

Liquidity: Adequate
As per ALM submitted by the company, the liquidity levels stood adequate till 6 months however, the company faces negative cumulative mismatch in 6M to 1-year time bucket to the extent of Rs. 42 crore as on June 30, 2022 which is a characteristic of the HFCs wherein loans extended to borrowers have long tenure against comparatively shorter tenure of liabilities owing to lack of availability of equally maturing long-term funds. This mismatches would be majorly emanating from repayments for the NCDs raised under TLTRO. As on June 30, 2022, the company had Rs. 28 crore of unencumbered cash balance, CC limits of Rs. 9 crore along with Rs. 10 crore of unutilized term loan. Considering the collections along with cash balance, unutilized limits and need based support from the parent IKF Finance Limited, the company is expected to manage its liquidity.

Analytical approach: Standalone; factoring in the linkages with the parent, IKF Finance Limited (IKF). IKFHF is a subsidiary of IKF Finance Limited (IKF) and has strong management, operational & financial linkages with its parent company. Thus, the assessment of rating is based on factoring linkages with the parent company along with standalone financials of IKFHF.

Applicable Criteria
Rating Methodology: Notching by Factoring Linkages in Ratings
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios-Financial Sector
CARE's Rating Methodology for Housing Finance Companies (HFCs)

About the Company
Incorporated in 2002 as IKF Financial Services Private Limited, IKF is registered Housing Finance Company (HFC) with NHB and is primarily engaged in providing home loan products/refinance solutions. The company has presence majorly in South India across the States of Andhra Pradesh, Telangana, Karnataka, Tamil Nadu, and Maharashtra. During FY22, it has expanded into Gujarat also. IKFHF has an AUM of Rs. 478.38 crore and has 28% of its portfolio to the salaried segment & the rest towards self-employed segment as on June 30, 2022. The company was initially promoted by the promoters of IKF Finance Limited. However, the company was acquired by IKF Finance Limited in December 2018. IKF Finance Ltd is the group's major asset financing company and non-deposit taking NBFC primarily engaged in the business of commercial vehicle, construction equipment and SME segment financing. IKF Finance Ltd. holds 92.49% stake in the company while the balance shareholding lies with the promoters and IKF Infratech Private Limited

Brief Financials (Rs. crore)	FY20 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income	40.21	52.60	15.00
PAT	9.05	10.00	1.39
Interest coverage (times)	1.76	1.63	1.25
Total Assets	229.48	412.36	432.89
Net NPA (%)	0.65	0.55	0.56
ROTA (%) [on-book]	4.68	3.12	1.31

A: Audited; UA; Unaudited; All ratios are as per CARE's calculations

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	09-06-2022	-	10-06-2027	180.72	CARE A-; Stable
Fund-based - LT-Term Loan- Proposed	-	-	-	-	294.28	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	9.00	CARE A-; Stable
Fund-based - LT-Cash Credit- Proposed	-	-	-	-	16.00	CARE A-; Stable
Debentures-Non-Convertible Debentures	INE02VP07016	June 12, 2020	11.15%	June 12, 2023	20.00	CARE A-; Stable
Debentures-Non-Convertible Debentures	INE02VP07024	June 29, 2020	11.00%	June 29, 2023	25.00	CARE A-; Stable
Debentures-Non-Convertible Debentures	INE02VP07032	July 23, 2020	11.00%	July 23, 2023	10.00	CARE A-; Stable
Debentures-Non-Convertible Debentures	INE02VP07040	July 31, 2020	10.11%	July 31, 2023	25.00	CARE A-; Stable
Debentures-Non-Convertible Debentures	INE02VP07057	July 31, 2020	10.50%	July 31, 2023	10.00	CARE A-; Stable
Debentures-Non-Convertible Debentures-Proposed	-	-	-	-	10.00	CARE A-; Stable
Debentures-Non-Convertible Debentures-Proposed	-	-	-	-	50.00	CARE A-; Stable
Debt-Subordinate Debt-Proposed	-	-	-	-	25.00	CARE A-; Stable

Annexure-2: Rating history for the 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	Fund-based - LT-Term Loan	LT	475.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-21)	1)CARE A-; Stable (14-Oct-20)	1)CARE A-; Stable (15-Jul-19)
2	Fund-based - LT-Cash Credit	LT	25.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-21)	1)CARE A-; Stable (14-Oct-20)	1)CARE A-; Stable (15-Jul-19)
3	Debentures-Non-Convertible Debentures	LT	100.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-21)	1)CARE A-; Stable (14-Oct-20) 2)CARE A-; Stable (12-Jun-20)	-
4	Debentures-Non-Convertible Debentures	LT	50.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-21)	1)CARE A-; Stable (22-Jan-21)	-
5	Debt-Subordinate Debt	LT	25.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-21)	1)CARE A-; Stable (22-Jan-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Non-Convertible Debentures	Detailed explanation
A. Financial covenants	
I. Net NPA	Net NPA shouldn't exceed 3% during the entire tenor of debenture till maturity
II. Capital adequacy ratio (CRAR)	CRAR to be maintained at minimum of 20%
B. Non-financial covenants	
I. Rating related trigger clause	1. If the rating of the company goes below investment grade that is BBB then the debenture holder shall have right for accelerated redemption and it shall lead to full redemption of the debentures.
Bank Facilities	**Detailed explanation**
C. Financial covenants	
I. Gross NPA	Gross NPA shouldn't exceed 3%
II. Capital adequacy ratio (CRAR)	CRAR to be maintained at minimum of 20%
D. Non-financial covenants	
I. Rating related trigger clause	1. If External Rating falls by one notch from A-; stable; so, default interest @2% additional would be charged.

**Note: These covenants are not on the entire but on some recent issuances of the instruments within the limit rated*

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
3	Fund-based - LT-Cash Credit	Simple
4	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Sudhakar Prakasam
Contact no.: - 044 28501003
Email ID: p.sudhakar@careedge.in

Relationship Contact
Name: Pradeep Kumar V
Contact no.: +91-98407 54521
Email ID: pradeep.kumar@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in