Kogta Financial (india) Limited

January 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,000.00 (Enhanced from 600.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**1,000.00 (Rs. One Thousand Crore Only)**		

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has reaffirmed the ratings assigned to the long-term bank facilities of Kogta Financial (India) Ltd. at "CARE A-" with "Stable" outlook. The rating continues to derive strength from healthy capitalization, long established track record in financing industry, experienced promoters, diversified resource base, majorly secured nature of the portfolio and well managed systems and processes.

The rating is however constrained by relatively higher product (used vehicle financing) and geographical (Rajasthan) concentration, inherent risks emanating from the borrower segment susceptible to economic downturns, and modest profitability. The rating is further constrained on account of pressure on asset quality levels on the back of economic shocks induced by Covid-19, although CARE believes that KFL has been able to control 90+ dpd delinquencies at ~3% levels. CARE notes the rebound in collection efficiencies, with CE of 97%, in the month of October'21, albeit marginal deterioration in the month of November'21, after having dipped to 77% in the month of May'21. However, as the company is on the path to resume its disbursements to normalcy, its ability to arrest further slippages, thereby maintaining adequate capitalization profile, would remain a key monitorable.

Rating Sensitivity

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

- Significant growth in loan portfolio along with adequate portfolio seasoning.
- Diversification in terms of geography and resource base along with sustained improvement in asset quality.

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

- Deterioration in profitability – decline in ROTA below 1.5% on sustained basis.
- Deterioration in asset quality such that Net NPA to Tangible Net worth[2] remain above 10% on sustained basis.
- Overall gearing exceeding 4 times

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters with long track record of operations:

Mr. Radha Krishan Kogta (Chairman), key promoter of the company, has vast experience of more than 35 years in the finance construction and other SME businesses, especially with 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) looks after the operations and geographical expansion activities while Mr. Varun Kogta (having more than a decade of experience) handles the Finance, IT and HR functions. Both are also involved in strategic decision making. Further, KFL also has backing from reputed PE investors who have representation on KFL's Board.

Further, KFL has a long track record of more than two decades in the industry. Over the years, KFL has built a large customer base, thereby generating substantial business from its existing customers. Also, it has built a decent employee strength which increased from 1,619 as on March 31, 2020 to 2,241 as on March 31, 2021 including professional team of top management. The investment in people helped KFL in achieving business growth even during pandemic period with its AUM increasing from Rs.1,068 crore as on March 31, 2020 to Rs.1,483 crore as on March 31, 2021, and further increased to the tune of Rs.1,634 crore as on September 30, 2021.

Comfortable capital structure on account of regular fund infusion to provide cushion to absorb elevated credit costs if any, going forward:

Although there was no equity infusion which happened in FY21 and H1FY22, the Capital adequacy ratio stood comfortably high at 43.39% (Tier I: 43.49%), as on March 31, 2021 and 36.25% (Tier I: 35.91%) as on September 30, 2021, as compared to the regulatory requirements of 15%, on account of internal accruals. Over the last several years, KFL has received funds on a regular basis aggregating to the tune of Rs.486.25 crore, via issuing Compulsory Convertible Preference Shares (CCPS) to various large investors. Regular fund infusion in the past has also led to improvement in KFL's tangible net worth to Rs.589.70 crore as on March 31, 2021 and to Rs.605.98 crore as on September 30, 2021. This has helped KFL maintain gearing levels at comfortable levels of 2.47x as on September 30, 2021. In CARE's opinion, although the current capitalization and gearing levels give KFL necessary wherewithal to support near term growth, its ability maintain heathy capitalization levels to absorb asset side shock, if any, going forward, remains a key rating driver.

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

[2] Tangible Net Worth = Equity Capital (Incl. reserves and surplus) - Deferred Tax Assets (net) - Other Intangible Assets

Primarily secured nature of business; albeit financing to relatively riskier borrower segment:
KFL has secured loan portfolio constituting around 99.90% of total AUM (own book + securitized) as on September 30, 2021, the portfolio is secured against the vehicles (CVs, Four Wheelers, Two Wheelers, Tractors, equipment) and property mortgage, the balance 0.1% is constituted by short-term unsecured personal loans as on September 30, 2021.
Commercial vehicles (HCV + LCV + SCV), Tractors and Multi Utility Vehicle (MUV) accounted for 36.91%, 8.84% and 9.90% respectively of total AUM, while LAP and Four Wheelers accounted for 23.17% and 20.70% respectively as on September 30, 2021. Further, KFL's tractor financing segment qualifies for priority sector and direct agricultural lending, as per RBI guidelines giving opportunities for DA and Securitizations.
The strength of secured nature of financing is partially offset by somewhat riskier borrower segment characterized by self employed borrowers in the low to middle income category, whose income levels are susceptible to the impact of economic downturn, thus impacting asset quality, in CARE's opinion. Therefore, given the current uncertain economic environment, the repayment behaviour of this segment of borrowers is expected to have an important bearing on the asset quality in near term.

Well managed in-house appraisal, origination and collection team along with good MIS system:
KFL has developed an in-house ERP system for online monitoring of all loan accounts and generation of required MIS reports, which is upgraded on a regular basis. KFL has an established monitoring structure for overseeing its operations including area-wise, product-wise and sales executive-wise details. It has defined credit appraisal, collection and monitoring systems including profile of clients, ticket size, KYC, etc. It has implemented specialized software with web-based browser and user level restrictions to ensure speedy access to information with data security. Credit-appraisal and final approval of loan is done by a dedicated team for ticket size below Rs.10 lakh while for above that approval is given by the top management itself.
Further KFL has a dedicated vertical for collections with the National head looking after the regional collections. The teams are segmented as per customers delinquency bucket wise, with a dedicated team for 0-30 DPD customers, 30-60 DPD customers and 90+ customers. This leads to an effective method of controlling bucket wise slippages of customers, which is also demonstrated from a 9% 1-30DPD AUM as compared to only 3% of 90+ DPD AUM as on September 30, 2021. Also, the company has a separate team for Tele calling which focuses on recovery of overdues from customers who has bounced on their NACH payments.

Growing scale of operations with gradually expanding resource base:
KFL's scale of operations has depicted continuous growing trend. KFL's outstanding own book portfolio (gross) has increased from Rs.1,000.78 crore as on March 31, 2020 to Rs.1,344.71 crore as on March 31, 2021. KFL's total outstanding AUM (gross) (including securitized portfolio) increased from Rs.1,071.58 crore as on March 31, 2020 to Rs.1,496.31 crore as on March 31, 2021, mainly due to increase in disbursement by around 9% to Rs.812 crore during FY21 over FY20. Further, KFL's AUM (gross) stood at Rs.1,633.81 crore as on September 30, 2021 on the back of total disbursement of Rs.439.77 crore during H1FY22.
Further, KFL has made incremental disbursements of Rs.130 crore in Oct'21, followed by Rs.166 crore in November'21. The management expects to record disbursements of Rs.150-160 crore per month till March'22.
KFL continues to have adequately diversified resource profile for the scale of its business. As on September 30, 2021, KFL's borrowing mix included NCD's (37.52%), Term Loans (Banks) (28.30%), Term Loans (FIs) (20.23%), Securitization (5.29%), CC & WCDL facilities (8.60%) and ICDs (0.06%). As of March 31, 2021, the company had borrowing relationships with 17 banks, 6 SFBs, 5 debt funds and 19 other financial institutions. KFL's continued ability to raise debt resources at competitive rates and promoters' sustained ability to infuse capital, as required to support growth, would be construed as key credit positives.

Key Rating Weaknesses
Moderate seasoning of loan portfolio:
KFL's AUM has grown by around 39% in FY21 over FY20. Of Rs.812 crore of disbursements in FY21, Rs.645 crore were disbursed only in Q4FY21, indicating a large proportion of its loan book being built recently. Considering, KFL operates primarily in used vehicle financing, where average tenure in 3-4 years, the portfolio has limited seasoning and the quality of its young book is yet to be demonstrated. Hence, CARE expects the portfolio quality to be hinged on the performance of its recently built portfolio.

Moderate geographical concentration:
KFL has presence mainly in 8 states with major portion of loan portfolio in Rajasthan, Gujarat and Maharashtra which comprised 36%, 20% and 17% of its AUM, respectively, as on September 30, 2021 as against 41%, 23% and 21% as on September 30, 2020. KFL also has operations in Madhya Pradesh and Delhi NCR region which comprised 9% and 5% of its AUM as on September 30, 2021, as against 8% and 4%, respectively, as on September 30, 2020. Further, since FY19, the company has diversified its operations to Haryana, Uttar Pradesh and Punjab which together comprised 13% of its AUM as on September 30, 2021 as against 10% as on September 30, 2020.
KFL has expanded its operation by opening new branches during FY21; which led to further granular distribution of portfolio across 143 branches as on March 31, 2021 compared to 119 branches as on March 31, 2020. Going forward, KFL's strategy on reducing dependence on Rajasthan and its implementation will be one of the credit monitorable.

Moderate asset quality and profitability, hinged on underlying borrower behavior in an uncertain economic environment, however high yields and comfortable capitalization providing cushion to absorb asset side shocks, if any
KFL's GNPA stood at to 3.35% as on March 31, 2021 (September 30, 2021: 3.68%) as compared to 3.23% as on March 31, 2020. Major delinquency in PAR 90 (AUM) as on March 31, 2021 was in Heavy commercial vehicles segment (4.12% of total AUM) and 2W (7.87%) followed by 4W (2.71%). Higher delinquency in HCV was mainly on account of slowdown in economic activity which resulted into lower freight generations by fleet owners.

Further, there has been a significant restructuring in H1F22 on account of the Covid second wave impact, because of which the OTR book increased from 1.5% of total book as on Mar'21 to ~4% as on September'21. However, as cited by the Management, as collections have rebounded from July 2021 onwards, and the book grows, the asset quality in terms of GNPA% is expected to improve. The company expects the GNPA number to reduce significantly to 3-3.5% by end of Q4FY22.
Company operates in high yield riskier product class as is evident from ~60% of the outstanding book constituted by used vehicle financing. Correspondingly, KFL is able to generate higher interest rates in the range of 18-19%, giving it reasonable headroom to absorb related credit costs, when compared with its average cost of funds of ~9-9.5%, The ability to absorb the credit costs is further supported by comfortable capitalization levels with CAR of 36.25% as on September 30, 2021. Further, although KFL witnessed higher delinquencies in softer buckets (1-30 DPD stood at 9% as on September 30, 2021, it has demonstrated ability to control the 90+ DPD at 3%. Given the continuing challenging environment, the ability of KFL to control further slippages from the incremental disbursements will be a key monitorable.
CARE also notes that the profitability metrics continues to remain moderate, with ROTA of 2.70% and 1.51% (Annualised) in FY21 and H1FY22, primarily on account of the higher employee benefit expenses, on the back of new branch setup and increase in employee count and elevated credit cost due to Covid, albeit some improvement in H1FY22 due to write backs. Going forward, the company's ability to generate healthy profitability metrics while containing its credit cost related to incremental business done, will be a key credit sensitivity, however, given the higher yields generated from the product class, KFL should be able to absorb the elevated credit costs, if any. The ability to absorb the credit costs is further supported by comfortable capitalization levels.

Liquidity Profile - Adequate*:*
Liquidity position of KFL as on September 30, 2021 has remained adequate. KFL has comfortable ALM as on September 30, 2021 with no negative cumulative mismatch in any time bucket. As on September 30, 2021, KFL has free cash and bank balance including free FDRs of Rs.341 crore and Free Current investments (Mutual fund/Equity market etc.) of Rs.172 crore, combined with inflows from advances (excluding interest income) of Rs.473 crore, against its debt repayment obligation (excluding interest expense) of Rs.661 crore for the next 12 months. Further as stated by the management, the company will maintain liquidity for next three months of disbursements, which is to the tune of around Rs.450 crore. Furthermore, as on Dec'21 the liquidity stood at ~Rs.600 crore.

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 Ratios - Financial Sector

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, Madhya Pradesh, Uttar Pradesh, Delhi and Haryana. It is primarily engaged in used and new vehicle financing including commercial vehicles, multi utility vehicles, cars, agriculture-based vehicles etc., LAP financing and personal loans. Promoters of KFL held 36.66% of the KFL's equity as on March 31, 2021 and the residual was held by several investors like NHPEA Rimo Holding B.V. (24.93%), IIFL Seed Ventures Fund 1 (20.94%), Aditya (Mauritius) Limited (18.09%). KFL has AUM of Rs.1,634 crore as on September 30, 2021 with large part of portfolio being secured loans.

Brief Financials (Rs. crore)	FY20 (12M, A)	FY21 (12M, A)	H1FY22 (6M, UA)
Accounting policy followed	Ind-As	Ind-As	Ind-As
Total income	169	245	144
PAT	25	45	17
Interest coverage (times)	1.47	1.76	1.36
Total Assets	1,244	1,850	2,119
Net NPA (%)	2.59	2.39	2.82
ROTA (%)	2.32	2.70	1.57

A: Audited;

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure 2

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

Covenants of rated instrument / facility: Not Applicable

Annexure-1: Details of Instruments/Facilities

Nature of Instrument/Facility	ISIN	Date of Issuance	Coupon Rate	Maturity Date	O/s Amt*	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit O/s	-	-	-	-	40.00	CARE A-; Stable
Fund-based - LT-Cash Credit (Proposed)	-	-	-	-	60.00	CARE A-; Stable
Fund-based - LT-Term Loan O/s	-	-	-	-	580.86	CARE A-; Stable
Fund-based - LT-Term Loan (Proposed)	-	-	-	-	319.14	CARE A-; Stable

**As on November 30, 2021*

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	100.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21) 2)CARE A-; Stable (04-Feb-21) 3)CARE A-; Stable (14-Jul-20) 4)CARE A-; Stable (01-Jun-20)	1)CARE A-; Stable (04-Dec-19) 2)CARE A-; Stable (14-Nov-19)	1)CARE BBB+; Stable (02-Jan-19)
2	Fund-based - LT-Term Loan	LT	900.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21) 2)CARE A-; Stable (04-Feb-21) 3)CARE A-; Stable (14-Jul-20) 4)CARE A-; Stable (01-Jun-20)	1)CARE A-; Stable (04-Dec-19) 2)CARE A-; Stable (14-Nov-19)	1)CARE BBB+; Stable (02-Jan-19)
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (04-Feb-21) 2)CARE A-; Stable (14-Jul-20)	1)CARE A-; Stable (14-Nov-19)	1)CARE BBB+; Stable (02-Jan-19)
4	Debentures-Non Convertible Debentures	LT	15.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable	1)CARE A-; Stable (14-Nov-19)	-

						(14-Jul-20)	2)CARE BBB+; Stable (25-Jul-19)	
5	Debentures-Non Convertible Debentures	LT	20.25	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (14-Jul-20)	1)CARE A-; Stable (07-Jan-20)	-
6	Debentures-Non Convertible Debentures	LT	10.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (03-Jul-20) 3)CARE A-; Stable (01-Jun-20)	-	-
7	Debentures-Non Convertible Debentures	LT	50.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (03-Jul-20)	-	-
8	Debentures-Non Convertible Debentures	LT	15.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (14-Jul-20)	-	-
9	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (04-Feb-21) 2)CARE A-; Stable (14-Jul-20)	-	-
10	Debentures-Non Convertible Debentures	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (19-Aug-20)	-	-
11	Debentures-Non Convertible Debentures	LT	30.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (31-Aug-20)	-	-
12	Debentures-Non Convertible Debentures	LT	23.96	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (29-Sep-20)	-	-

13	Debentures-Non Convertible Debentures	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21) 2)CARE A-; Stable (22-Feb-21) 3)CARE A-; Stable (04-Feb-21) 4)CARE A-; Stable (23-Dec-20) 5)CARE A-; Stable (12-Nov-20)	-	-
14	Debentures-Non Convertible Debentures	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21) 2)CARE A-; Stable (22-Feb-21) 3)CARE A-; Stable (04-Feb-21) 4)CARE A-; Stable (23-Dec-20) 5)CARE A-; Stable (12-Nov-20)	-	-
15	Debentures-Market Linked Debentures	LT	8.00	CARE PP MLD A-; Stable	1)CARE PP MLD A-; Stable (24-Sep-21)	1)CARE PP MLD A-; Stable (04-Feb-21) 2)CARE PP MLD A-; Stable (23-Dec-20)	-	-
16	Debentures-Non Convertible Debentures	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21) 2)CARE A-; Stable (22-Feb-21) 3)CARE A-; Stable (04-Feb-21) 4)CARE A-; Stable (23-Dec-20)	-	-
17	Debentures-Market Linked Debentures	LT	8.00	CARE PP MLD	1)CARE PP MLD A-; Stable	1)CARE PP MLD A-; Stable	-	-

				A-; Stable	(24-Sep-21)	(04-Feb-21)		
18	Debentures-Market Linked Debentures	LT	8.00	CARE PP MLD A-; Stable	1)CARE PP MLD A-; Stable (24-Sep-21)	1)CARE PP MLD A-; Stable (04-Feb-21)	-	-
19	Bonds-Pooled Bond Issuance with Credit Enhancement Ratings	LT	20.00	CARE AA (CE); Stable	-	1)CARE AA (CE); Stable (09-Mar-21) 2)Provisional CARE AA (CE); Stable (08-Feb-21)	-	-
20	Debentures-Non Convertible Debentures	LT	30.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Feb-21)	-	-
21	Debentures-Non Convertible Debentures	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21) 2)CARE A-; Stable (22-Feb-21)	-	-
22	Debentures-Non Convertible Debentures	LT	20.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (08-Mar-21)	-	-
23	Debentures-Non Convertible Debentures	LT	35.00	CARE A-; Stable	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (08-Mar-21)	-	-
24	Debentures-Non Convertible Debentures	LT	30.00	CARE A-; Stable	1)CARE A-; Stable (29-Sep-21) 2)Provisional CARE A-; Stable (05-Jul-21)	-	-	-
25	Debentures-Market Linked Debentures	LT	75.00	CARE PP MLD A-; Stable	1)CARE PP MLD A-; Stable (24-Sep-21)	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Non-Convertible Debentures	Simple
2.	Principal Protected Market Linked Debentures	Highly complex
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.

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About CARE Ratings Limited:
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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.

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