CareEdge RATINGS

India Factoring and Finance Solutions Private Limited (Revised)

September 09, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	500.00	CARE BBB; Positive / CARE A2 (Triple B ; Outlook: Positive/ A Two	Revised from CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable / A Three Plus)
Total Bank Facilities	**500.00 (₹ Five Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings (CARE) has revised the ratings assigned to the bank facilities of IFFSPL from CARE BBB; Stable/A3+ to CARE BBB; Positive/A2. The revision in the ST rating and LT rating outlook factors in expected equity infusion in near future, expected recoveries on old NPA accounts and continued improvement in overall financial performance. The rating derives strength from IFFSPL's dominant position in the Indian Export Factoring Industry (two-way factoring) with high exposure to the lower risk export factoring, moderate but improving profitability, adequate capitalization levels supported by history of capital infusion by FIMBank Plc. The rating also factors in financial, operational and managerial support from FIMBank Plc, which is ultimately held by Kuwait Projects Company (KIPCO) through United Gulf Holding Inc of Bahrain and Burgan Bank of Kuwait. These rating strengths are partially offset by IFFSPL's high customer concentration in overall receivables albeit growing operations, concentrated resource profile, with high dependence on credit lines from FIMBank Plc,moderate asset quality although improving with lower slippages and increased recoveries. IFFSPL's ability to strengthen its capital base both through capital infusion and earnings accretion on a sustained basis as well as improve asset quality metrics will be the key monitorable. Further, credit profile of FIMBank Plc and its ability and willingness to render managerial, operational and financial support to IFFSPL as and when required, will continue to be the rating drivers.

Rating sensitivities

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

- Improvement in capital profile on the back of planned capital infusion and earnings accretion
- Improvement in credit profile of Parent (FIMbank Plc) resulting in improved ability to support IFFSPL as and when required
- Significant growth in Receivables/FIU(fund in use) book improving the earnings profile on a sustained basis while maintaining resilient asset quality

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

- Deterioration in asset quality with Net NPA above 5% on sustained basis
- Further deterioration in credit profile of parent FIMBank Plc resulting in weakened ability of FIMBank Plc to support IFFSPL as and when required
- Decline in profitability with Return on Average Total Assets (ROTA) reducing to lower than 1%

Detailed description of the key rating drivers

Key rating strengths

Market Leader in Indian export factoring Industry and high exposure to lower risk export factoring

IFFSPL is one of the seven NBFC-Factors registered with the RBI and a Category III Authorized Dealer which specializes in Receivable Financing-Factoring Business. IFFSPL has been the market leader in the Indian Export Factoring since the last 3 years and holds around 53% market share in export factoring in India in CY21.The four-partite structure involving the exporter, importer, IFFSPL as factor and the Import Factor providing cover for default, if any, in honouring the payment by importer, minimizes the credit risk to a considerable extent, despite the basic nature of export factoring being "non-recourse". As on March 31, 2022, export factoring formed around 83% (PY 74%) of the Receivables/FIU(funds in use) where credit risk is transferred to import factor while domestic factoring formed 17% (PY 26%) of the Receivables/FIU(fund in use). IFFSPL plans to maintain the exposure of export factoring to 75-80% going forward. In Q1FY 23 export factoring accounts for 84 % of total receivables

Moderate but improving profitability

The company has reported two consecutive years of profits and has dealt with pressures owing to large NPAs from legacy accounts. In FY22 PAT has grown by 165% from Rs.9.79 crore to Rs.25.99 crore primarily due to growth in fees and recovery

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

of fully provided NPA accounts. As Receivables/FIU(fund in use) book increased from Rs.573 crore to Rs.1,115 crore with cycle of 90-120 days, IFFSPL's fee income registered a growth of 85.44% from Rs.13.32 crore in FY21 to Rs.24.7 crore in FY22.Also, interest income increased by 29.01% from Rs.21.96 crore in FY21 to Rs.28.33 in FY22. IFFSPL has reported negative credit cost due to no incremental slippages in FY21 and FY22 and recovery of legacy NPA accounts which increased bottom line by Rs.13.98 crore. Correspondingly, ROTA (%) and RONW (%) has increased from 1.52% and 6.19% respectively in FY21 to 2.85% and 14.76% respectively in FY22. CARE also notes that, IFFSPL's demonstrated ability to recover significant overdues from few erstwhile NPA accounts may can help it write back respective provisions in near future, adding to the bottom-line. Nevertheless, IFFSL's ability to keep the credit costs low while growing the business remains a key monitorable.In Q1 FY 23 PAT is at Rs 8.10 crore out of Total Income of Rs 21.78 crore

Adequate capitalization levels supported by history of capital infusions by FIMBank Plc
IFFSPL derives regular capital support from FIMBank Plc (Rs.250 crore since FY14). Tangible Net worth of IFFSPL stood at Rs.189.10 crore as on March 31,2022 compared to Rs.163.04 crore as on March 31,2021. The total CAR and Tier I CAR as on March 31, 2022, is 18.16% and 17.73% as against 32.66% and 32.21% respectively as on March 31, 2021. Decrease in CAR is due to 2x increase in Receivables/FIU (fund in use) from Rs.573 crore in March 2021 to Rs Rs.1,115.87 crore in March 2022. The overall gearing increased from 2.36x to 5.05x due to increase in short term borrowings from Rs.384.12 crore in March 2021 to Rs. 955.4 crore in March 2022. Of these, 81% of the borrowings are from the parent. Ability to strengthen the capital base on the back of planned capital infusion of $5 million (Rs.40 crore) from the parent (for which Board approval is already in place) to meet the projected growth plans of the company remains a key rating monitorable.The total CAR and Tier I CAR as on June 30, 2022, is 20.43% and 20.00%

Strong financial and managerial support from parent
FIMBank Plc owns 88.16% of IFFSPL. IFFSPL derives regular capital support from FIMBank (Rs.250 crore since FY14) along with foreign currency revolving funding line of USD 125 Million as on June 2022. The management support is also evident from two out of the five members on IFFSPL's Board being from FIMBank Plc management team. The Chairman of IFFSPL Board is the CEO of FIMBank Plc while another member on board is Chief Investment officer of FIMBank Plc. FIMBank Plc. has pursued a strategy of growing its international factoring franchise, with setting up of factoring joint ventures or units in selected emerging markets. The Indian factoring market is largely untapped thereby representing a huge growth potential. IFFSPL is the key for FIMBank Plc to tap this market and hence it remains strategically important to the FIMBank Group. Given weakened financial profile of FIMBank Plc on account of deteriorated asset quality and low profitability, FIMBank's ability and willingness to render capital support to IFFSPL in future as and when required, will be a key rating sensitivity in CARE' view

Key rating weaknesses

Concentrated resource profile, with high dependence on credit lines from foreign parent shareholders
IFFSPL's domestic factoring business is funded through owned funds and domestic borrowings whereas export factoring is funded through foreign currency borrowings. IFFSPL depends on Foreign Currency Revolving Credit from Parent Company FIMBank Plc to fund and grow its Export Factoring Book. FIMbank PLC funds 87.9% (PY 92.3%) of Foreign Currency requirement of IFFSPL as on March 31, 2022. Post increase in export factoring book, revolving Credit line has been increased by Parent Company from $75 million to $100 million in Feb 2022 and further enhanced to $125 million as on June 2022. In addition to FIMBank Plc, IFFSPL has utilised facilities from Banca IFIS, Deutsch Factoring Bank, Bank of Bahrain and Kuwait, and Federal bank to grow its Export Factoring book. For domestic borrowings, IFFSPL has obtained Rs.80 crore working Capital/Cash Credit facility from Central bank of India out of which Rs.77.41 crore is utilised as on March 31, 2022. Apart from this IFFSPL has obtained sanction from private banks like Axis Bank, HDFC Bank and Yes bank to the extent of Rs.30.10 crore which remains unutilized as on March 2022. The company is in talks with various institutions for both domestic funding and foreign currency lines. Thus, the ability of IFFSL to diversify the resource profile specially in foreign currency borrowings remains a key monitorable.In Q1 FY 23 85.6% of borrowings is funded by parent FIMBank Plc

High concentration in the book albeit growing operations
The Receivables/FIU (funds in use) increased from Rs.573 crore in March 2021 to Rs Rs.1,115.87 in March 2022. Top 20 exposures formed 75.38% (PY 77%) of total Receivables/FIU(fund in use) and 445% of tangible net worth. Top single exposure in export factoring represents 12.43% (PY 10.89%) of Total FIU while Top single exposure in domestic factoring represents 1.77% (PY 2.96%) of Total FIU. In export factoring, average value of invoices factored increased to Rs.20.65 crore (PY Rs.12.21 crore) while in domestic factoring average value of invoices factored is Rs.8.8 crore (PY Rs.5.88 crore). Top 3 sectors (Garment, Textiles and Electricals) account for 49% (PY 47%) of Total Receivables/FIU(fund in use). Hence, CARE will closely monitor the ability and demonstration of the company to reduce the portfolio concentration levels, both exposure wise and industry wise.

Moderate asset quality, although improving with lower slippages and increased recoveries
IFFSPL's asset quality has improved due to no fresh slippages and focus on export factoring where credit risk is transferred to import factor (83% of Total FIU or factoring receivables). Gross NPA and Net NPA improved from 20.22% and 8.85% as on March 31,2021 to 7.24% and 2.26% as on March 31, 2022. There have been no fresh NPAs in FY21 and FY22 which has improved asset quality. As IFFSPL deals in short term advances of 90-120 days, company has not added fresh NPAs in last 7-8 cycles of invoice factoring. GNPAs decreased from Rs.115.85 crore (20.22%) as on March 31,2021 to Rs.80.84 crore (7.24%

GNPA) as on March 31,2022 on account of recoveries amounting to Rs.35 crore. Of Rs.80.84 crore NPA in books as on March 31, 2022, Rs.44.80 crore pertains to large size defaulted NBFC which has been fully provided for in books. Company expects full recovery once legal proceedings are completed, thereby improving the bottom-line in the year of recovery. Due to no incremental slippages and recoveries on legacy NPA, provision coverage ratio has improved from 61.69% as on March 31, 2021 to 70.35% as on March 31, 2022. One standard account was restructured as on March 31,2022 amounting to Rs.2.34 crore (0.21% of Receivables/FIU). In case of domestic factoring exposure, recourse lies first with buyer and then seller in case of non-recovery from buyer. More than 75% of domestic debtors exposure (based on overall limit sanctioned) in FY21 and FY22 are rated A and above. IFFSL's ability attain its growth objective while maintaining resilient asset quality metrics remains a key credit sensitivity.As on June 2022 ,GNPA and NNPA stands at 7.32% and 2.08%

Liquidity: Adequate
IFFSPL has adequate liquidity profile with positive cumulative mismatches in all time buckets as per ALM dated March 31, 2022. IFFSL has liquidity of around Rs.159.15 crore as on March 31, 2022, in the form of cash, deposits and liquid investments against total debt repayment of Rs 978.99 Crore for the next 1 year and unutilised sanctioned lines of Rs 60 crore (including Rs 34 Crore facilities availed through lien marked on deposits). Further, 81% of borrowings are provided by Parent FIMBank Plc providing adequate support in case of stress based on past history. Tenure of receivables is 90-120 days and majority of Receivables/FIU are from export factoring, hence any delay in payment will be borne by the Import factor along with interest payment from seller, thereby providing reasonable comfort in liquidity in case buyer of invoice is not able to fulfil its obligation.

Analytical approach: Standalone business profile of India Factoring and Finance Solutions Private Limited along with linkages with FIMBank Plc

Applicable criteria
Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Non-Banking Financial Companies
Financial ratios – Financial Sector
Factoring linkages with Parent Sub JV Group
Criteria for Short term instruments

About the company
IFFSL was incorporated in December 2009 by PNB (30% shareholding), FIMBank Plc (49%) and Italy -based Banca IFIS (10%). IFFSL was registered as non-banking finance company-factor with the Reserve Bank of India in February 2014. FIM purchased PNB's stake in the joint venture in March 2014 making it the majority shareholder. Its primary products are export factoring (without recourse) and domestic factoring (with recourse). It is licensed by the Reserve Bank of India as a category-III authorised dealer. The company's current shareholders are FIM (88.16%), Banca IFIS (4.3%), Blend Financial Services (0.4%) and India Factoring Employee Welfare Trust (7.1%). The company is based out of Mumbai and also operates through its branches in Ahmedabad, Bangalore, Chennai Delhi and Coimbatore

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total income	43.22	57.00	21.78
PAT	9.79	25.99	8.10
Total Assets	594.22	1232.66	1103.31
Net NPA (%)	8.85	2.26	2.08
ROTA (%)	1.52	2.85	2.77

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-LT/ST	-	-	-	-	500.00	CARE BBB; Positive / CARE A2

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/ST	LT/ST*	500.00	CARE BBB; Positive / CARE A2		1)CARE BBB; Stable / CARE A3+ (02-Nov-21)		

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-LT/ST	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 instruments: CARE Ratings 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
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Archana Mahashur
Phone: +91-22-6754 3410
E-mail: Archana.Mahashur@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-22-6754 3404
E-mail: saikat.roy@careratings.com

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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