Infina Finance Private Limited

April 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	100.00	CARE AA+; Stable	Assigned
Commercial paper	2,000.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the non-convertible debentures (NCDs) and commercial paper (CP) issues of Infina Finance Private Limited (IFPL) factor in its strong parentage [IFPL is jointly held by Kotak Family- 50.01% and by Kotak Mahindra Capital Company Ltd- 49.99%] and promoter support. While IFPL operates as a completely independent entity and does not share branding with the Kotak Group, it benefits from the group's robust risk management policies and procedures, oversight of experienced Board and financial flexibility on account of its parentage. The ratings further factor in IFPL's robust capitalisation levels, comfortable asset quality and strong liquidity profile. The ratings further take into account its volatile earnings profile on account of its proprietary trading portfolio and portfolio concentration risks.

Rating sensitivities: Factors likely to lead to rating actions

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

- Sustained growth in the scale of operations.
- Diversification in the earnings profile.

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

- Material dilution in IFPL's shareholding or reduction in the strategic importance thereby weakening parent linkages/ support.
- Overall gearing exceeding 4.0x on a sustained basis.

Analytical approach: CARE Ratings Limited (CARE Ratings) has assessed IFPL's standalone credit profile along with managerial, operational, and financial linkages with its promoter group.

Outlook: Stable

The outlook is stable on account of the company's healthy capital structure, strong parentage and support along with business growth.

Key strengths

Strong parentage and support

IFPL is jointly held by the Kotak family and by Kotak Mahindra Capital Company Ltd [KMCC, a wholly-subsidiary of Kotak Mahindra Bank Ltd (KMBL)]. The business is strategic and an integral part of the Kotak Group, which is evident by way of capital and managerial support provided to the company over the years. While IFPL operates as a completely independent entity and does not share branding with the Kotak Group, it benefits from the group's robust risk management policies and procedures, oversight of the experienced Board and financial flexibility on account of its parentage.

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

The Board of Directors comprises prominent individuals who provide strategic oversight with representations on the Board and crucial committees, such as Risk Management Committee, Audit Committee, Asset Liability Management Committee, etc. The Board of Directors of IFPL comprises six members, of which five are non-executive and one is an Independent director; it includes Suresh Kotak and Jaimin Bhatt, Group President & Group Financial Officer of Kotak Mahindra Bank Limited (KMBL).
CARE Ratings expects IFPL to continue to derive strength from its linkages with the Kotak Group. While the company is currently well capitalised, CARE Ratings expects the promoters to provide need-based capital support going forward.

Robust capitalisation levels

IFPL had tangible net worth (TNW) of ₹2,271 crore as on December 31, 2022, with robust capitalisation levels of 65.63% [March 31, 2022: 71.16%]. The gearing stood at 0.50x as on December 31, 2022 [March 31, 2022: 0.43x]. The company primarily borrows via commercial papers to fund its lending requirements which are subscribed by mutual funds, family offices and corporates. Being an associate of KMBL, the company enjoys financial flexibility and regularly taps capital market for its funding requirements at competitive rates of interest.
Going forward with expected growth in the lending portfolio, CARE Ratings expects gearing levels of the company to rise in the medium term.

Comfortable asset quality

The company was formed in 1996 and was primarily involved in proprietary investments. Post 2009, the company started proprietary trading and lending against securities (LAS) business. The LAS business has been scaling up since FY21. The lending portfolio of the company grew to ₹2,229 crore as on March 31, 2022 [P.Y.: ₹1,362 crore] and to further ₹2,757 crore as on December 31, 2022. The company has comfortable asset quality metrics with nil non-performing assets (NPAs) as on December 31, 2022. As the company looks to expand its portfolio, sound risk management practices and comfortable asset quality metrics provide comfort.

Key weaknesses

Volatile profitability

IFPL has two business segments, i.e. (a) proprietary trading & investments which includes equity long short strategy for trading, investing of short-term surpluses & long-term investments and (b) LAS segment. Given considerable exposure to proprietary trading and investments, the company has volatile earnings profile. On the LAS front, the earnings are dependent on loan book growth, competition and movement in yields. While the share of lending portfolio as percentage of total assets has been rising since scale up of LAS business from FY21 onwards, volatility in earnings profile has continued.
During FY22, the company reported profit before tax (PBT) of ₹347 crore [P.Y.: ₹286 crore] out of which trading and investment activities contributed ₹196 crore [P.Y.: ₹216 crore]. PBT for 9MFY23 stood at ₹99 crore.
Overall net interest margins (NIMs) of the company have contracted during 9MFY23 on account of contraction in spreads on LAS portfolio driven by rising interest rates and higher competition in the LAS segment. LAS margins have reduced from approximately 3.5% during FY22 to 2.6% during 9MFY23 with around 150 bps rise in cost of funding from 4.5% during FY22 to 6% during 9MFY23.

Concentration risk

The lending portfolio of the company is primarily in the form of LAS to promoters and high net worth individuals (HNIs). The portfolio is concentrated with top 10 and 20 accounts as on December 31, 2022, constituting 64% [March 31, 2022: 65%] and 87.20% [March 31, 2022: 88.32%] of total portfolio, respectively. On the basis of net worth, top 20 accounts constituted 106.20 and 89.81%% of net worth as on December 31, 2022, and March 31, 2022, respectively. While CARE Ratings takes cognisance of high concentration risk in the lending portfolio, the risks are mitigated by strong risk management policies and underwriting systems encompassing sound security cover and regular monitoring of collaterals, and oversight of the experienced Board.

Liquidity: Strong

The company has strong liquidity position with no negative cumulative mismatches in any time buckets as on December 31, 2022. As on December 31, 2022, the company had cash and cash equivalents of ₹282 crore against which the company had CP repayments of ₹625 crore over the next 3 months. The above balances include lien marked cash equivalents of ₹138 crore, which the company provides as margin for its derivative positions. On the lending front, LAS portfolio is funded via back-to-back CP borrowings. Furthermore, this portfolio carries put/ call options, which mitigates the liquidity risk to some extent. While IFPL operates as completely independent entity and does not share branding with the Kotak Group, it enjoys financial flexibility and capital raising ability at competitive rates on account of its parentage.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Non Banking Financial Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

About the company

Infina Finance Pvt Ltd (IFPL) was incorporated in year 1996 and is registered as Reserve Bank of India (RBI)-registered non-deposit taking systematically important non-banking financial company (NBFC). IFPL is held 50.01% by the Kotak Family via various companies controlled by the family and 49.99% by Kotak Mahindra Capital Company Ltd [100% subsidiary of Kotak Mahindra Bank Ltd (KMBL)]. IFPL has two business segments, i.e., (a) proprietary trading and investments, which includes equity long short strategy for trading, investing of short-term surpluses & long-term investments and (b) loan against securities (LAS) segment.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total income (including net gain on fair value changes)	356	536	150
PAT	226	270	71
Interest coverage (times)	6.33	3.74	4.08
Total assets*	2,281	3,162	3,435
Net NPA (%)	0.23	0.00	0.00
ROTA (%)	11.29	9.92	2.88

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; *excluding intangible assets

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Proposed Commercial Paper	--	--	--	--	2000.00	CARE A1+
Proposed Non Convertible Debentures	--	--	--	--	100.00	CARE AA+; 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	Commercial Paper-Commercial Paper (Standalone)	ST	2000.00	CARE A1+	--	--	--	--
2	Debentures-Non-convertible Debentures	LT	100.00	CARE AA+; Stable	--	--	--	--

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper	Simple
2	Non-convertible Debentures	Simple

Annexure-5: Lender details

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

Note on the 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	**Analytical Contacts**
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Name: Sanjay Agarwal Senior Director **CARE Ratings Limited** Phone: +91-22- 6754 3500 E-mail: sanjay.agarwal@careedge.in Name: Gaurav Dixit Director **CARE Ratings Limited** Phone: +91-11-45333237 E-mail: gaurav.dixit@careedge.in Name: Geeta Chainani Assistant Director **CARE Ratings Limited** Phone: +91-22-6754 3447 E-mail: Geeta.Chainani@careedge.in

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