IKF Finance Limited

March 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,600.00 (Enhanced from 2,250.00)	CARE A; Stable	Reaffirmed
Subordinated debt – I	25.00	CARE A; Stable	Reaffirmed
Subordinated debt – II	140.00	CARE A; Stable	Reaffirmed
Non-convertible debentures – XIII (Proposed)	50.00	CARE A; Stable	Assigned
Non-convertible debenture – XI	70.00	CARE A; Stable	Reaffirmed
Non-convertible debenture – XII	150.00	CARE A; Stable	Reaffirmed
Market-linked debentures – X	-	-	Withdrawn
Non-convertible debenture - PP-MLD – I	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities and debt instruments of IKF Finance Limited (IKF) continue to derive strength from the long and established track record of operations in the lending business with a strong brand image and seasoned and gradual growth in portfolio over the past several years. Ratings further derive strength from the well-defined credit and recovery policy with strong collection systems adopted, healthy profitability indicators, comfortable capital adequacy further supported by equity raise of ₹255 crore in FY23 and equity raise of ₹120 crore in 9MFY24 and moderately diversified resource profile. Ratings are constrained by regional concentration of portfolio, relatively moderate scale of operations, inherent risks associated with its borrower profile mostly being self-employed in the informal segment, high ticket exposure to small and medium enterprises (SME) and non-banking financial companies (NBFC) segments, and moderate asset quality, characterised by higher delinquencies in softer buckets, notwithstanding the improvement witnessed during FY23 and 9MFY24.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the NCD issue- X and NCD-PP-MLD issue - I of IKF Finance Limited with immediate effect, as the company has repaid the aforementioned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: Factors likely to lead to rating actions

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

- Sustainable improvement in asset quality along with improvement in delinquencies in softer buckets.
- Growth in the scale of operations while maintaining profitability and capitalisation at comfortable levels.

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

- Deterioration in the asset quality with the gross non-performing assets (GNPA) above 4%, thereby impacting the profitability for an extended period.
- Moderation of the capital structure with a weakening of the overall gearing ratio to more than 4.5x on a sustained basis.
- Aggressive growth or migration of the portfolio to segments that lack seasoning benefits.

Analytical approach: Standalone

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

Outlook: Stable

The stable outlook reflects the likely continuation of stable credit profile with comfortable capitalisation levels and healthy profitability levels.

Detailed description of key rating drivers:

Key strengths

Long and established track record of operations

IKF has a long track record of about three decades in the vehicle financing segment. VGK Prasad, Chairman, has an established experience of more than three decades, and IKF's business operations have benefitted from his long-established track record in the auto finance segment and vast industry network developed over the years. He has also been associated with other industry associations and has been the President of the Federation of Indian Hire Purchase Associations (FIHPA). His daughter, K Vasumathi Devi, has succeeded as the Managing Director in January 2022. The company is well-supported by a qualified and experienced management team.

Well-defined credit policy and improving MIS system

IKF has a presence in commercial vehicles (CV), construction equipment (CE), and three-wheeler/four-wheeler segments, along with the SME financing segment, and has a well-defined credit policy for each segment. With a view to manage growing scale of operations and exposure in each segment, the company has been improving its technology platform. Its loan origination and credit appraisal processes are now tab-based, resulting in improved efficiency and a better underwriting process. The company has implemented a customised mobile collection module (tab-based system) software for ease of the underwriting process and to ensure lower turn-around time. IKF has strengthened its collection system by establishing stringent collection processes, with early delinquency checks, establishing bucket-wise collection, and strengthening its collection team by hiring professionals with substantial experience in the domain. IKF also prefers selling its repossessed vehicles to its existing customers rather than auctioning them to reduce loss on sale of repossessed assets.

Healthy profitability profile

In FY23, IKF reported a profit after tax (PAT) of ₹50 crore on a total income of ₹287 crore as against a PAT of ₹40 crore on a total income of ₹221 crore in FY22. Yield on advances improved from 14.68% in FY22 to 15.07% in FY23. The cost of funds remained stable at 9.21% in FY23 as against 9.20% in FY22. The net interest margin (NIM) moderated slightly to 6.16% in FY23 from 6.40% in FY22. Despite opening 34 new branches in FY23, opex (as a percentage of total assets) remained stable at 2.67% in FY23 as against 2.63% in FY22. With asset quality parameters remaining at similar levels and write-back in the provision due to an improvement in stage-II assets, credit cost improved from 0.31% in FY22 to 0.24% in FY23. Return on total assets (ROTA) slightly moderated to 2.23% in FY23 as against 2.41% in FY22. In 9MFY24, IKF reported a profit after tax (PAT) of ₹47 crore on a total income of ₹300 crore and a ROTA of 2.11% and credit cost of 0.51%.

Moderately diversified resource profile with an inclination towards banks

Bank borrowings were the key source of funding for IKF and proportion of bank borrowings stood at 72.93% as on March 31, 2023 (PY: 80.37%). Notably, the company has a cash credit (CC) facility of ₹261 crore outstanding from different banks as on March 31, 2023. Borrowings as term loans from NBFCs and financial institutions (FI) stood at 13.14% and 2.19%, respectively, as on March 31, 2023, as against 8.41% and 4.09%, respectively, as on March 31, 2022. Borrowings through instruments such as nonconvertible debentures (NCDs), sub-debt, and pass-through certificates (PTCs) stood at 3.73%, 8.02% and 0.00%, respectively, as on March 31, 2023, as against 3.01%, 3.45% and 0.67%, respectively, as on March 31, 2022. In 9MFY24, borrowings from banks, NBFC/Fis, NCDs and sub-debt stood at 70.42%, 16.88%, 5.63% and 7.07%, respectively.

Comfortable capitalisation supported by further capital raise in FY23 and 9MFY24

Aided by regular capital infusion by promoters and private equity (PE) investors and retention of internal accruals, IKF has maintained capital adequacy at comfortable levels over the past few years. In FY23, the company has raised equity of ₹255 crore from Accion and HNIs. As a result of this capital raise, capital adequacy ratio (CAR) and Tier-I CAR improved from 24.11% and 21.55% as on March 31, 2022, to 33.02% and 26.25% as on March 31, 2023, despite significant growth in loan portfolio. Notably, the company has also infused ₹45 crore in its housing finance subsidiary, IKF Home in FY23. Post the infusion, shareholding (on a fully dilutive basis) of IKF in IKF Home stood at 89.13% as on March 31, 2023. Overall gearing and adjusted gearing (excluding investments in the subsidiary) as on March 31, 2023, stood at 2.95x and 3.50x, respectively, as against 3.39x and 4.05x, respectively, as on March 31, 2022. Furthermore, during 9MFY24, the company has raised ₹120 crore from Teachers Insurance and Annuity Association of America. The capital adequacy ratio (CAR) and Tier-I CAR stood at 30.46% and 26.09% as on December 31, 2023. Overall gearing and adjusted gearing (excluding investments in the subsidiary) as on as on December 31, 2023, stood at 2.75x and 3.59x, respectively. CARE Ratings expects capitalisation levels to remain comfortable over the medium term.

Improving scale of operations

IKF has been in the vehicle finance business since 1991. That said, despite having a track record close to three decades, the size of operations remained moderate with assets under management (AUM) of ₹2,452 crore as on March 31, 2023. The company has been able to register continuous growth with comfortable capitalisation. Over the last three-years ended March 31, 2023, IKF has grown at a compounded annual growth rate (CAGR) of 23%, from ₹1,315 crore as on March 31, 2020, to ₹2,452 crore as on March 31, 2023 (PY: ₹1,742 crore), including a growth of 41% in FY23. In FY23, IKF disbursed ₹1,674 crore, which is 71% higher than the disbursements happened in FY22. Vehicle finance continues to be key focus area for IKF, and the share has remained at around 79% over the past few years, mainly dominated by CV (30.52%), cars and multi-utility vehicles (MUVs; 18.64%), and CE (22.29%). Loans to other NBFCs have increased from 9.35% as on March 31, 2022, to 11.11% as on March 31, 2023. The share of SME loans moderated over the last few years, from 21.8% as on March 31, 2019, to 8.75% as on March 31, 2023. The company largely has a seasoned portfolio with a long presence in the vehicle finance segment. Hence, any large deviation from the same to any other asset class will be key monitorable.

In 9MFY24, the company has disbursed ₹1725 crore, which improved the AUM of the company to ₹3,222 crore as on December 31, 2023. The vehicle finance continues to contribute around 77% of the overall AUM as on December 31, 2023.

CARE Ratings expects the portfolio to grow at a higher rate in the medium term with the company raising equity in the recent past.

Key weaknesses

Geographical concentration of portfolio

Over the last two fiscals, IKF has not expanded its operations in new geographies and is operating in eight states, covering Andhra Pradesh, Telangana, Gujarat, Tamil Nadu, Karnataka, Maharashtra, Madhya Pradesh, and Rajasthan, through 134 branches as on March 31, 2023 (PY: 102 branches). The portfolio is concentrated in South India, with 67% of AUM as on March 31, 2023, as against 71% of AUM as on March 31, 2022. The home states of IKF – Andhra Pradesh and Telangana – constituted 53% of AUM as on March 31, 2023, against 57% as on March 31, 2022. As on December 31, 2023, South India (four states) constituted 66.07% of the loan portfolio, while Andhra Pradesh and Telangana constituted 49% of the total AUM. In Q3FY24, the company has expanded its operations to the state of Odisha.

CARE Ratings expects IKF's portfolio to remain concentrated in south Indian states, especially in Andhra Pradesh and Telangana, in the medium term.

Exposure to high-ticket SME financing and loans to NBFCs

IKF has been limiting disbursements in the SME financing segment over the last three years ended March 31, 2023. The proportion of SME financing on overall AUM has reduced to 8.75% as on March 31, 2023, from 10.34% as on March 31, 2022. The company is now focusing more on lower ticket size SME loans rather than higher ticket size loans, which is expected to reduce overall risk of the SME portfolio. The company has started a separate vertical for the low-ticket size SME and SME is expected to grow going forward. In 9MFY24, the SME portfolio stood at 13.71% of overall AUM.

Loans to other NBFCs have increased from 9.35% as on March 31, 2022, to 11.11% as on March 31, 2023. However, it moderated to 8.74% as on December 31, 2023.

Moderate asset quality characterised by high delinquency in softer buckets

GNPA stood at 2.83% as on March 31, 2023, as against 2.72% as on March 31, 2022, despite implementing new IRACP Norms in FY23. It is to be noted that the company has not provided one-time restructuring or ECLGS loans in the COVID-19 period. The company has written off a portfolio amounting to ₹3.43 crore in FY23 as against ₹7.62 crore in FY22. Stage-III provision coverage stood at 21% as on March 31, 2023, from 34% as on March 31, 2022. In line with the same, the net stage-III assets increased from 1.84% as on March 31, 2022, to 2.25% as on March 31, 2023. With higher collection efforts and repossession activities, delinquency in softer buckets has shown improvement in FY23 though remained high with the 0+ dpd improving from 38% as on March 31, 2022, to 29% as on March 31, 2023. The GNPA and NNPA stood at 2.32% and 1.86% as on December 31, 2023, with 0+ dpd improving to 25% as on December 31, 2023.

Liquidity: Adequate

IKF's asset liability maturity (ALM) stood adequate, with no negative cumulative mismatches in any time buckets up to one year as on December 31, 2023, due to the relatively short nature of its loans against longer tenure of its borrowings. As on February 29, 2024, the company had cash and cash equivalents of ₹165 crore and un-availed lines of credit (including unutilised CC of ₹118 crore) of ₹478 crore. Of the total borrowings raised in 9MFY24, majority were bank borrowings. The company's ability to mobilise funds from banks at a competitive rate with improved incremental cost of borrowings adds comfort.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Withdrawal Policy
Market Linked Notes
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)

IKF was incorporated as IndraKeela Financiers Private Limited in 1991. The company became a closely held public company in 1994, with a change in name to IKF Finance & Investments Limited. The company had a public issue in 1995 and IKF's shares were listed on the Bombay Stock Exchange Limited (BSE) and Ahmedabad Stock Exchange. In 1998, the company was renamed IKF Finance Limited and shares were subsequently delisted on February 18, 2015. IKF is registered as a non-deposit taking NBFC and is primarily engaged in used vehicle and SME financing. As on December 31, 2023, vehicle and SME finance (including loan to NBFC) constitutes 78% and 22% of the total AUM respectively.

The company is promoted by VGK Prasad, Chairman, who has more than three decades of experience in the industry and is currently managed by Vasumathi Devi, Managing Director. As on December 31, 2023, promoters held a 42.84% share, followed by two funds (India Business Excellence Fund II – 11.12% and IIA – 18.60%) managed by Motilal Oswal Private Equity (MOPE), 7.96% by Accion digital transformation fund, 7.96% by Teachers Insurance and Annuity Association of America and the rest by others.

The company has presence majorly in South India across Andhra Pradesh, Telangana, Karnataka, Tamil Nadu and has been expanding across Gujarat, Maharashtra, Madhya Pradesh, and Rajasthan in the last few years. It has total of 148 branches as on December 31, 2023.

IKF has a subsidiary, IKF Home, with a shareholding of 89.1% (rest by promoters) as on December 31, 2023. It is primarily engaged in providing home loan products and refinancing solutions and loan against property (LAP).

Brief Financials (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	30-12-2023 (UA)
Total income	221	287	300
PAT	40	50	47
Interest coverage (times)	1.46	1.44	1.40
Total assets	1,716	2,763	3197
Net NPA (%)	1.84	2.25	1.86
ROTA (%)	2.28	2.04	1.92

A: Audited UA: Unaudited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of 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
Debentures-non-convertible debentures - XII	INE859C07154	11-08-2023	9.75%	11-08-2025	50.00	CARE A; Stable
Debentures-non-convertible debentures - XII	INE859C07154	05-09-2023	9.75%	11-08-2025	50.00	CARE A; Stable
Debentures-non-convertible debentures - XII	Proposed	-	-	-	50.00	CARE A; Stable
Debentures-non-convertible debentures – XIII (Proposed)	-	-	-	-	50.00	CARE A; Stable
Fund-based - LT-cash credit	-	-	-	-	400.00	CARE A; Stable
Fund-based - LT-term loan	-	-	-	March, 2028	2200.00	CARE A; Stable
Debentures-non-convertible debentures – X	INE859C07147	06-12-2021	9.00%	06-12-2023	0.00	Withdrawn
Debentures Market-linked debentures – I	INE859C08095	30-09-2021	G sec Linked	30-09-2023	0.00	Withdrawn
Debentures-Non-convertible debentures – XI	INE859C08111	27-03-2023	10.60%	27-03-2025	70.00	CARE A; Stable
Debt-subordinate debt – I	INE859C08079	19-01-2021	13.25%	20-07-2026	25.00	CARE A; Stable
Debt-subordinate debt – II	INE859C08103	28-10-2022	13.85%	28-04-2028	140.00	CARE A; Stable

Annexure-2: Rating history for 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 2023-2024	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
1	Fund-based - LT-cash credit	LT	400.00	CARE A; Stable	1)CARE A; Stable (06-Jul-23)	1)CARE A; Stable (20-Mar-23) 2)CARE A; Stable (27-Sep-22)	1)CARE A; Stable (29-Sep-21)	1)CARE A; Stable (07-Oct-20)

2	Debentures-non-convertible debentures	LT	-	-	-	-	1)Withdrawn (29-Sep-21)	1)CARE A; Stable (07-Oct-20)
3	Fund-based - LT-term loan	LT	2200.00	CARE A; Stable	1)CARE A; Stable (06-Jul-23)	1)CARE A; Stable (20-Mar-23) 2)CARE A; Stable (27-Sep-22)	1)CARE A; Stable (29-Sep-21)	1)CARE A; Stable (07-Oct-20)
4	Debentures-non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (07-Oct-20)
5	Debentures-non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (07-Oct-20)
6	Debentures-non-convertible debentures	LT	-	-	-	1)Withdrawn (27-Sep-22)	1)CARE A; Stable (29-Sep-21)	1)CARE A; Stable (07-Oct-20)
7	Debentures-non-convertible debentures	LT	-	-	1)Withdrawn (06-Jul-23)	1)CARE A; Stable (20-Mar-23) 2)CARE A; Stable (27-Sep-22)	1)CARE A; Stable (29-Sep-21)	1)CARE A; Stable (07-Oct-20) 2)CARE A; Stable (12-Jun-20)
8	Debentures-non-convertible debentures	LT	-	-	-	1)Withdrawn (27-Sep-22)	1)CARE A; Stable (29-Sep-21)	1)CARE A; Stable (07-Oct-20) 2)CARE A; Stable (20-Jul-20)
9	Debentures-non-convertible debentures	LT	-	-	-	1)Withdrawn (27-Sep-22)	1)CARE A; Stable (29-Sep-21)	1)CARE A; Stable (07-Oct-20) 2)CARE A; Stable (24-Aug-20)
10	Debentures-non-convertible Debentures	LT	-	-	-	1)Withdrawn (27-Sep-22)	1)CARE A; Stable (29-Sep-21)	1)CARE A; Stable (31-Dec-20)
11	Debentures-non-convertible debentures	LT	-	-	1)CARE A; Stable (06-Jul-23)	1)CARE A; Stable (20-Mar-23) 2)CARE A; Stable (27-Sep-22)	1)CARE A; Stable (29-Sep-21)	1)CARE A; Stable (31-Dec-20)
12	Debt-subordinate debt	LT	25.00	CARE A; Stable	1)CARE A; Stable (06-Jul-23)	1)CARE A; Stable (20-Mar-23) 2)CARE A; Stable	1)CARE A; Stable (29-Sep-21)	1)CARE A; Stable (31-Dec-20)

						(27-Sep-22)		
13	Debentures-market-linked debentures	LT	-	-	-	-	1)Withdrawn (05-Oct-21) 2)Provisional CARE PP-MLD A; Stable (25-Jun-21)	-
14	Debentures-market-linked debentures	LT	-	-	1)CARE PP-MLD A; Stable (06-Jul-23)	1)CARE PP-MLD A; Stable (20-Mar-23) 2)CARE PP-MLD A; Stable (27-Sep-22)	1)CARE PP-MLD A; Stable (29-Sep-21)	-
15	Debt-subordinate debt	LT	140.00	CARE A; Stable	1)CARE A; Stable (06-Jul-23)	1)CARE A; Stable (20-Mar-23) 2)CARE A; Stable (30-Sep-22)	-	-
16	Debentures-Non-convertible debentures	LT	70.00	CARE A; Stable	1)CARE A; Stable (06-Jul-23)	1)CARE A; Stable (20-Mar-23)	-	-
17	Debentures-non-convertible debentures	LT	150.00	CARE A; Stable	1)CARE A; Stable (06-Jul-23)	-	-	-
18	Debentures-non-convertible debentures	LT	50.00	CARE A; Stable				

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-market-linked debentures	Complex
2	Debentures- non-convertible debentures	Simple
3	Debt- subordinate debt	Simple
4	Fund-based - LT-cash credit	Simple
5	Fund-based - LT-term loan	Simple

Annexure-5: Lender details

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

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

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About us:
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