

**IKF Finance Limited (Revised)**

July 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	2,600.00	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 - XIV	200.00	CARE A; Stable	Assigned
Non-convertible debentures – XI	70.00	CARE A; Stable	Reaffirmed
Non-convertible debentures – XII	150.00	CARE A; Stable	Reaffirmed
Non-convertible debentures - XIII	50.00	CARE A; Stable	Reaffirmed

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 in the last several years. Ratings further derive strength from 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 ₹120 crore in FY24 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 in FY24.

**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. The rating also considers the likely support to the subsidiary IKF Home Finance Limited.

**Outlook: Stable**

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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications.

**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 experience of over 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, 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, 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 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 FY24, IKF reported a profit after tax (PAT) of ₹77 crore on a total income of ₹437 crore as against a PAT of ₹50 crore on a total income of ₹287 crore in FY23. Yield on advances improved from 15.07% in FY23 to 15.38% in FY24. Cost of funds remained stable at 9.22% in FY24 as against 9.21% in FY23. Net interest margin (NIM) improved to 6.99% in FY24 from 6.16% in FY23. Opex (as a percentage of total assets) increased to 3.03% in FY24 as against 2.67% in FY23. Credit cost increased from 0.24% in FY23 to 0.51% in FY24 on account of the increase in bad debt write-off amounting to ₹10 crore. Return on total assets (ROTA) improved to 2.39% in FY24 as against 2.23% in FY23.

**Comfortable capitalisation supported by further capital raise in FY23 and FY24**

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 in the last few years. In FY23, the company has raised equity of ₹255 crore from Accion and HNIs. Notably, the company 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, 2024. In FY24, the company raised ₹120 crore from Teachers Insurance and Annuity Association of America and capital adequacy ratio (CAR) and Tier-I CAR post the capital raise stood at 26.50% and 22.66% as on March 31, 2024. Overall gearing and adjusted gearing (excluding investments in the subsidiary) as on March 31, 2024, stood at 3.11x and 4.31x, respectively, as against 2.95x and 3.96x, respectively, as on March 31, 2023. CARE Ratings expects capitalisation levels to remain comfortable in the medium term.

**Improving scale of operations**

IKF has been in the vehicle finance business since 1991. Despite having a track record close to three decades, size of operations remained moderate with assets under management (AUM) of ₹3,775 crore as on March 31, 2024. The company has been able to register continuous growth with comfortable capitalisation. In the last three years ended March 31, 2024, IKF has grown at a

compounded annual growth rate (CAGR) of 36%, from ₹1,489 crore as on March 31, 2021, to ₹3,775 crore as on March 31, 2024 (PY: ₹2,452 crore), including a growth of 54% in FY24. In FY24, IKF disbursed ₹2,676 crore, which is 60% higher than disbursements in FY23. Vehicle finance continues to be key focus area for IKF, and the share has remained at around 78% in the last few years, mainly dominated by CV (31.75%), cars and multi-utility vehicles (MUVs; 14.97%), and CE (26.23%). Loans to other NBFCs remained at 11.11% as on March 31, 2023, to 10.55% as on March 31, 2024. The share of SME loans moderated in the last few years, from 21.8% as on March 31, 2019, to 11.23% as on March 31, 2024 (PY:8.75%). 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 classes will be key monitorable. CARE Ratings expects the portfolio to grow at a higher rate in the medium term with the company raising equity in the recent past. CARE Ratings expects the growth momentum in AUM to continue for the medium term.

### **Moderately diversified resource profile with an inclination towards banks**

Bank borrowings were the key funding source for IKF and the proportion of bank borrowings stood at 67.80% as on March 31, 2024 (PY: 72.93%). The company has a cash credit (CC) facility of ₹315 crore outstanding from different banks as on March 31, 2024. Borrowings as term loans from NBFCs and financial institutions (FI) stood at 20.36% as on March 31, 2023 (PY:15.32%). Borrowings through instruments such as non-convertible debentures (NCDs) and sub-debt stood at 5.85% and 5.99%, respectively, as on March 31, 2024, as against 3.73% and 8.02% respectively, as on March 31, 2023.

### **Key weaknesses**

#### **Geographical concentration of portfolio**

In FY24, IKF expanded its operations to Odisha and is currently operating in nine states, covering Andhra Pradesh, Telangana, Gujarat, Tamil Nadu, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan and Odisha, through 165 branches as on March 31, 2024 (PY: 134 branches). The portfolio is concentrated in South India, with 64% of AUM as on March 31, 2024, as against 67% of AUM as on March 31, 2023. The home states of IKF – Andhra Pradesh and Telangana – constituted 46% of AUM as on March 31, 2024, against 53% as on March 31, 2023.

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 high-ticket size SME financing segment in the last three years ended March 31, 2024. 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 started a separate vertical for low-ticket size SME and the proportion of SME financing on overall AUM increased to 11.23% as on March 31, 2024, from 8.75% as on March 31, 2023. The proportion of SME portfolio in overall AUM is expected to grow going forward.

Loans to other NBFCs stood at 10.55% as on March 31, 2024, as against 11.11% as on March 31, 2023.

#### **Moderate asset quality characterised by high delinquency in softer buckets**

GNPA stood at 2.35% as on March 31, 2024, as against 2.83% as on March 31, 2023. The company has written off a portfolio amounting to ₹10.41 crore in FY24 as against ₹3.43 crore in FY23. Provision coverage ratio stood at 23% as on March 31, 2024, from 21% as on March 31, 2023. In line with the same, the net NPA (NNPA) decreased from 2.25% as on March 31, 2023, to 1.80% as on March 31, 2024. With higher collection efforts and repossession activities, delinquency in softer buckets has shown

improvement in FY24 though remained high with the 0+ days past due (DPD) improving from 29% as on March 31, 2023, to 21% as on March 31, 2024.

### **Liquidity: Adequate**

IKF's asset liability maturity (ALM) stood adequate, with no negative cumulative mismatches in time buckets up to one year as on March 31, 2024. As on June 30, 2024, the company had cash and cash equivalents of ₹131 crore and un-availed lines of credit (including unutilised CC of ₹51 crore) of ₹407 crore. Of the total borrowings raised in FY24, majority were bank borrowings. The company's ability to mobilise funds from banks at a competitive rate with improved incremental cost of borrowings adds

### **Applicable criteria**

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[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 March 31, 2024, 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 March 31, 2024, 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, Rajasthan and Odisha in the last few years. It has total of 165 branches as on March 31, 2024.

IKF has a subsidiary, IKF Home, with a shareholding of 90.55% (rest by promoters) as on March 31, 2024. It is primarily engaged in providing home loan products and refinancing solutions and loan against property (LAP).

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (A)
Total income	287	437
PAT	50	77
Interest coverage (times)	1.44	1.47
Total assets	2,763	3,675
Net NPA (%)	2.25	1.80
ROTA (%)	2.23	2.39

A: Audited, 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:** Annexure-2

**Covenants of rated instrument / facility:** 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	INE859C07162	27-03-2024	9.95%	27-03-2027	50.00	CARE A; Stable
Debentures-non-convertible debentures – XIII (Proposed)	-	-	-	-	50.00	CARE A; Stable
Debentures-non-convertible debentures – XIV (Proposed)	-	-	-	-	200.00	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 – 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	400.00	CARE A; Stable	-	1)CARE A; Stable (21-Mar-24)  2)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)
2	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (29-Sep-21)
3	Fund-based - LT-Term Loan	LT	2200.00	CARE A; Stable	-	1)CARE A; Stable (21-Mar-24)  2)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)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (27-Sep-22)	1)CARE A; Stable (29-Sep-21)
5	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)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (27-Sep-22)	1)CARE A; Stable (29-Sep-21)
7	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (27-Sep-22)	1)CARE A; Stable (29-Sep-21)
8	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (27-Sep-22)	1)CARE A; Stable (29-Sep-21)
9	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (21-Mar-24)  2)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)
10	Debt-Subordinate Debt	LT	25.00	CARE A; Stable	-	1)CARE A; Stable (21-Mar-24)	1)CARE A; Stable (20-Mar-23)	1)CARE A; Stable (29-Sep-21)

						2)CARE A; Stable (06-Jul-23)	2)CARE A; Stable (27-Sep-22)	
11	Debentures-Market Linked Debentures	LT	-	-	-	-	-	1)Withdrawn (05-Oct-21)  2)Provisional CARE PP- MLD A; Stable (25-Jun-21)
12	Debentures-Market Linked Debentures	LT	-	-	-	1)Withdrawn (21-Mar-24)  2)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)
13	Debt-Subordinate Debt	LT	140.00	CARE A; Stable	-	1)CARE A; Stable (21-Mar-24)  2)CARE A; Stable (06-Jul-23)	1)CARE A; Stable (20-Mar-23)  2)CARE A; Stable (30-Sep-22)	-
14	Debentures-Non Convertible Debentures	LT	70.00	CARE A; Stable	-	1)CARE A; Stable (21-Mar-24)  2)CARE A; Stable (06-Jul-23)	1)CARE A; Stable (20-Mar-23)	-
15	Debentures-Non Convertible Debentures	LT	150.00	CARE A; Stable	-	1)CARE A; Stable (21-Mar-24)  2)CARE A; Stable (06-Jul-23)	-	-
16	Debentures-Non Convertible Debentures	LT	50.00	CARE A; Stable	-	1)CARE A; Stable (21-Mar-24)	-	-
17	Debentures-Non Convertible Debentures	LT	200.00	CARE A; Stable				

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not Applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the 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: Lender details

To view 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](mailto:care@careedge.in) for clarifications.

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