

## IKF Finance Limited

December 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	2,600.00	CARE A+; Stable	Upgraded from CARE A; Stable
Subordinated debt – I	25.00	CARE A+; Stable	Upgraded from CARE A; Stable
Subordinated debt – II	140.00	CARE A+; Stable	Upgraded from CARE A; Stable
Non-convertible debentures – XI	17.50 (Reduced from 70.00)	CARE A+; Stable	Upgraded from CARE A; Stable
Non-convertible debentures – XII	79.17 (Reduced from 150.00)	CARE A+; Stable	Upgraded from CARE A; Stable
Non-convertible debentures - XIII	50.00	CARE A+; Stable	Upgraded from CARE A; Stable
Non-convertible debentures - XIV	200.00	CARE A+; Stable	Upgraded from CARE A; Stable
Non-convertible debentures - XV	200.00	CARE A+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has taken a consolidated approach of IKF Finance Limited (IKF) and IKF Home Finance Limited (IKFHF). Revision in ratings assigned to bank facilities and debt instruments of IKF Finance Limited (IKF) factors in consistent financial performance along with improvement in the scale of operations while maintaining comfortable capitalisation levels supported by equity raise on regular intervals. The scale of operations improved with assets under management (AUM) on consolidated basis grew from ₹1,777 crore as on March 31, 2021 to ₹4,811 crore as on March 31, 2024 at a compounded annual growth rate (CAGR) of 39%, supported by tangible net worth (TNW) of ₹924 crore as on March 31, 2024. The AUM (Consol) stood at ₹5,386 crore as on September 30, 2024, with a TNW of ₹1,016 crore as on September 30, 2024. The profitability parameters have also remained consistent over the period with the company reporting return on total asset (ROTA) of 2.61% in FY24 against 2.28% in FY23.

Asset quality continues to remain moderate, characterised by higher delinquencies in softer buckets with improvement witnessed y-o-y. Gross non-performing asset (GNPA) and net NPA (NNPA) on a standalone basis stood at 2.35% and 1.80%, respectively, as on March 31, 2024. The overall softer delinquencies has been witnessing improvement y-o-y with 0+ days past due (DPD) improving from 45% as on March 31, 2021, to 21% as on March 31, 2024.

The rating continues 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 and moderately diversified resource profile. The rating is constrained by regional concentration of portfolio, 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.

### 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.
- Significant growth in the scale of operations while maintaining profitability and capitalisation at comfortable levels.

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

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

- Deterioration in the asset quality with the 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 over 4.5x on a sustained basis.

**Analytical approach:**

Consolidated, considering that subsidiary IKFHF as an integral part of the group with shared brand name and business linkages.

**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 robust track record of nearly three decades in the vehicle financing sector. VGK Prasad, the Chairman, brings over 30 years of experience, significantly benefiting IKF's operations through his extensive background in auto finance and a well-established industry network. He has also held prominent roles in industry associations, including serving as President of the Federation of Indian Hire Purchase Associations (FIHPA). In 2007, VGK Prasad's daughter, K Vasumathi Devi, took on a leadership role at IKF and was gradually elevated as Managing Director in January 2022. The company is supported by a highly qualified and experienced board and management team.

IKFHF, a subsidiary of IKF, holds strategic importance for the IKF group. The subsidiary is led by Vasantha as Managing Director, younger daughter of VGK Prasad. As a parent company, IKF provides management and operational support, leveraging its established branch network and risk management systems, and assisting in loan sourcing. Additionally, IKFHF benefits from the shared 'IKF' brand name and access to the group's common treasury, enabling it to secure resources at competitive rates from banks, financial institutions, and capital markets.

**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 and the SME financing sector, with 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 turnaround 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.

**Improving scale of operations**

Over the three years ending March 31, 2024, IKF (Consolidated) achieved a CAGR of 39%, expanding from ₹1,777 crore on March 31, 2021, to ₹4,811 crore on March 31, 2024 (previous year: ₹3,148 crore), with a notable 53% growth in FY24. In FY24, IKF (Consolidated) disbursed ₹3,145 crore, marking a 53% increase over FY23 disbursements.

Vehicle finance remains IKF's primary focus, accounting for ~61% of the consolidated portfolio in FY24. This includes commercial vehicles (24.92%), cars and multi-utility vehicles (MUVs; 11.75%), and construction equipment (20.58%). The subsidiary IKF Home offers housing loans and loan against property (LAP), which represent 13.27% and 8.55% of the consolidated portfolio,

respectively. Loans to other NBFCs and the SME portfolio constitute 8.28% and 8.81% of the portfolio, respectively, as of March 31, 2024.

IKF has a seasoned portfolio with a long-standing presence in vehicle finance. Hence, significant shift to other asset classes will be a key monitorable. On a standalone basis, IKF reported an AUM of ₹3,775 crore as on March 31, 2024 and ₹4,223 crore as on September 30, 2024. During the same periods, IKFH reported an AUM of ₹1,049 crore and ₹1,173 crore, respectively. CARE Ratings expects the growth momentum in AUM to slightly moderate for the medium term considering the slower growth in the NBFC sector.

### **Consistency in profitability profile**

In FY24, on a consolidated basis, IKF reported a profit after tax (PAT) of ₹102 crore on a total income of ₹586 crore against a PAT of ₹62 crore on a total income of ₹378 crore in FY23. Yield on advances improved from 15.60% in FY23 to 15.77% in FY24. Cost of funds marginally increased to 9.48% in FY24 against 9.19% in FY23 considering increase in cost of borrowing for the overall NBFC sector. Net interest margin (NIM) improved to 7.62% in FY24 from 6.80% in FY23. Opex (as a percentage of total assets) remained stable at 3.69% in FY24 against 3.61% in FY23. Credit cost increased from 0.23% in FY23 to 0.52% in FY24 considering the increase in bad debt write-off amounting to ₹12 crore. Return on total assets (ROTA) improved to 2.61% in FY24 against 2.28% in FY23. On a standalone basis, IKF reported a PAT of ₹77 crore as on March 31, 2024 and ₹53 crore on September 30, 2024. On a standalone basis, ROTA in FY24 and H1FY25 stood at 2.39% and 2.90%, respectively.

### **Comfortable capitalisation supported by capital raise in regular intervals**

Supported by regular capital infusions from promoters and private equity (PE) investors, and retained internal accruals, IKF has maintained comfortable capital adequacy levels in recent years. In FY23, the company raised ₹255 crore in equity from Accion and high-net-worth individuals (HNIs), and infused ₹45 crore into its housing finance subsidiary, IKF Home. Following this infusion, IKF's shareholding in IKF Home stood at 89.13% as on March 31, 2024.

In FY24, IKF raised ₹120 crore from the Teachers Insurance and Annuity Association of America. Post this capital raise, the capital adequacy ratio (CAR) and Tier-I CAR were 26.50% and 22.66%, respectively, as on March 31, 2024, and 23.56% and 21.02%, respectively, as on September 30, 2024, on a standalone basis. The overall gearing on a consolidated basis was 3.73x as on March 31, 2024, and 4.09x as on September 30, 2024. CARE Ratings expects IKF's capitalisation levels to remain comfortable in the medium term.

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

Bank borrowings have been the primary funding source for IKF (Standalone), accounting for 67.80% of total borrowings as of March 31, 2024 (previous year: 72.31%). By September 30, 2024, this proportion slightly decreased to 66.27%. The company had cash credit (CC) facilities of ₹323 crore from banks as on September 30, 2024. Term loans from NBFCs and financial institutions (FIs) made up 20.36% of borrowings as of March 31, 2024 (previous year: 15.32%), and 21.55% as of September 30, 2024. Borrowings through non-convertible debentures (NCDs) and sub-debt were 5.85% and 5.99%, respectively, as of March 31, 2024, compared to 3.73% and 8.02% as of March 31, 2023. As on September 30, 2024, NCDs and sub-debt borrowings stood at ~7.23% and 4.95%, respectively.

For IKF Home, the subsidiary, the share of borrowings through term loans from banks increased from 56% as on March 31, 2023, to 66% as of March 31, 2024. The share of term loans from NBFCs decreased from 26% to 20% over the same period. Borrowings from the National Housing Bank (NHB) rose from 4% to 7%, while NCDs decreased from 14% to 7%. As on September 30, 2024, the shares of term loans from banks, term loans from NBFCs, NHB, and NCDs were 70%, 14%, 11%, and 5%, respectively. As a subsidiary of IKF, the company benefits from the parent company's strong relationships with major banks and financial institutions.

### **Key weaknesses**

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

In FY24, IKF expanded its operations to Odisha, bringing its presence to nine states: Andhra Pradesh, Telangana, Gujarat, Tamil Nadu, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan, and Odisha. As on March 31, 2024, IKF operated 165 branches (up

from 134 the previous year), and IKFH operated 79 branches (up from 64 the previous year). By H1FY25, IKF had 179 branches and IKFH had 94 branches.

The portfolio remains concentrated in South India, accounting for 67% of AUM as of March 31, 2024, and 64% as on September 30, 2024, on a consolidated basis. The home states of Andhra Pradesh and Telangana represented 46% of consolidated AUM as of March 31, 2024, and 38% as of September 30, 2024. CARE Ratings expects IKF's portfolio to continue being concentrated in South Indian states, particularly Andhra Pradesh and Telangana, in the medium term.

#### **Exposure to high-ticket SME financing and loans to NBFCs**

In the last three years ending March 31, 2024, IKF has been restricting disbursements in the high-ticket SME financing segment. The company is now focusing more on lower-ticket MSME loans, which is expected to lower the overall risk of the SME portfolio. As on March 31, 2024, SME financing accounted for 8.81% of the total AUM (Consolidated), and this proportion decreased slightly to 8.01% by September 30, 2024. However, the share of the SME portfolio in the overall AUM is expected to grow due to the expansion of the MSME portfolio. Loans to other NBFCs constituted 8.28% of the AUM as of March 31, 2024, and decreased to 7.04% by September 30, 2024.

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

On a standalone basis, IKF's GNPA were 2.35% as on March 31, 2024, down from 2.83% as on March 31, 2023. The company wrote off ₹10.41 crore in FY24, compared to ₹3.43 crore in FY23. The provision coverage ratio increased to 23% as of March 31, 2024, from 21% the previous year. Consequently, the NNPA decreased from 2.25% as on March 31, 2023, to 1.80% as on March 31, 2024. As on September 30, 2024, GNPA and NNPA stood at 2.25% and 1.75%, respectively.

Enhanced collection efforts and repossession activities led to an improvement in delinquency in softer buckets, with 0+ days past due (DPD) improving from 29% as of March 31, 2023, to 21% as of March 31, 2024. However, by September 30, 2024, 0+ DPD increased to 24%.

IKFHF reported a GNPA of 0.76% and an NNPA of 0.56% as on March 31, 2024. However, these figures moderated to 1.16% and 0.55%, respectively, by September 30, 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 September 30, 2024. As on September 30, 2024, the company had cash and cash equivalents of ₹178 crore and un-availed lines of credit (including unutilised CC of ₹74 crore) of ₹214 crore on a standalone basis. On consolidated basis, cash and cash equivalents stood at ₹251 crore. Of the total borrowings raised in H1FY25, 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**

[Consolidation](#)

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Non Banking Financial Companies](#)

#### **About the company and industry**

##### **Industry classification**

Macroeconomic 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 over three decades of experience in the industry and is currently managed by Vasumathi Devi, Managing Director. As on September 30, 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 179 branches as on September 30, 2024. IKF has a subsidiary, IKF Home, with a shareholding of 90.55% (rest by promoters) as on September 30, 2024. It is primarily engaged in providing home loan products and refinancing solutions and LAP.

Brief Financials (₹ crore) (Consolidated)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total Income	378	586	394
PAT	62	102	69
Interest coverage (times)	1.43	1.48	1.49
Total Assets	3,334	4,471	5,258
Net NPA (%)	2.25*	1.80*	1.75*
ROTA (%)	2.28	2.61	2.85

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

\*Standalone

**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

**List of subsidiaries/ associates taken for consolidation:** Annexure-6

#### 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 and Rating Outlook
Debentures-Non-convertible debentures – XV	Proposed	-	-	-	200.00	CARE A+; Stable
Debentures-Non-convertible debentures – XI	INE859C08111	27-Mar-2023	10.60%	27-Mar-2025	17.50	CARE A+; Stable
Debentures-non-convertible debentures - XII	INE859C07162	27-Mar-2024	9.95%	27-Mar-2027	41.67	CARE A+; Stable
Debentures-non-convertible debentures - XII	INE859C07154	05-Sep-2023	9.75%	11-Aug-2025	18.75	CARE A+; Stable

Debentures-non-convertible debentures - XII	INE859C07154	11-Aug-2023	9.75%	11-Aug-2025	18.75	CARE A+; Stable
Debentures-non-convertible debentures – XIII & XIV	INE859C07204	13-Nov-2024	9.90%	15-Mar-2027	60.00	CARE A+; Stable
Debentures-non-convertible debentures –XIV	INE859C07196	17-Oct-2024	9.00%	17-Oct-2026	60.00	CARE A+; Stable
Debentures-non-convertible debentures –XIV	INE859C07170	25-Jul-2024	9.95%	25-Jul-2026	70.00	CARE A+; Stable
Debentures-non-convertible debentures –XIV	INE859C07188	01-Aug-2024	10.30%	30-Jul-2027	60.00	CARE A+; Stable
Debt-subordinate debt – I	INE859C08079	19-Jan-2021	13.25%	20-Jul-2026	25.00	CARE A+; Stable
Debt-subordinate debt – II	INE859C08103	28-Oct-2022	13.85%	28-Apr-2028	140.00	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	436.20	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	March, 2028	2163.80	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	436.20	CARE A+; Stable	1)CARE A; Stable (22-Jul-24)	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	2163.80	CARE A+; Stable	1)CARE A; Stable (22-Jul-24)	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 (22-Jul-24)	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)
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 (22-Jul-24)	1)CARE A; Stable (21-Mar-24) 2)CARE A; Stable	1)CARE A; Stable (20-Mar-23) 2)CARE A; Stable	-

						(06-Jul-23)	(30-Sep-22)	
14	Debentures-Non-convertible debentures	LT	17.50	CARE A+; Stable	1)CARE A; Stable (22-Jul-24)	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	79.17	CARE A+; Stable	1)CARE A; Stable (22-Jul-24)	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 (22-Jul-24)	1)CARE A; Stable (21-Mar-24)	-	-
17	Debentures-Non-convertible debentures	LT	200.00	CARE A+; Stable	1)CARE A; Stable (22-Jul-24)	-	-	-
18	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](#)**Annexure-6: List of entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	IKF Home Finance Limited	Full	90.55% Subsidiary

**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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### About us:

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