

## IKF Home Finance Limited

January 22, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Non-Convertible Debentures	50.00	CARE A-; Stable (Single A Minus; Outlook: Stable )	Assigned
Subordinate Debt	25.00	CARE A-; Stable (Single A Minus; Outlook: Stable )	Assigned
<b>Total Long Term Instruments</b>	<b>75.00</b> <b>(Rs. Seventy-Five Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to the Non-Convertible Debenture issues and Sub-Ordinated Debt issue of IKF Home Finance Limited (IKFHF) derives strength from strong parentage of IKF Finance Limited (IKF Finance) and the resultant synergies in terms of business linkages with common brand identity, shared infrastructure and treasury function besides management and financial support from the parent entity. The rating also factors in the comfortable capital adequacy levels, satisfactory asset quality, adequate liquidity position, evolving systems and process and gradual improvement in collection efficiency during the period April 2020 to November 2020 after witnessing slowdown in business operation on account of outbreak of Covid-19 pandemic.

The rating is, however, constrained by the limited track record and relatively small scale of operation, regional concentration of the portfolio, low seasoning of portfolio, inherent risks associated with the borrower profile mostly being self-employed in the informal segment, concentrated resource & funding profile and muted growth during the current fiscal due to lower disbursements in view of covid 19.

#### Rating sensitivities

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

- Improvement in the credit risk profile of the parent, IKF Finance Limited.

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

- Weakening in the credit risk profile of the parent, IKF Finance Limited
- Significant deterioration in asset quality and profitability levels.

#### Detailed description of the key rating drivers

##### **Strong parentage with business synergies, operational & financial linkages:**

IKFHF is a subsidiary of IKF Finance Limited (IKF, rated CARE A; Stable) and is of strategic importance to IKF. By virtue of parent-subsidiary relationship, IKF provides management and operational support in terms of usage of sharing established branch network & risk management systems of IKF, market trends, sourcing of loans, etc. Besides, linkages with the shared 'IKF' brand name and access to common group treasury is expected to enable the company to raise resources at competitive rates from both, financial institutions and capital markets.

As on March 31, 2020, IKF has lent about Rs.19.12 crore to IKFHF and bought portfolio to the extent of Rs.23 crore from IKFHF. IKF has also advanced Rs.5.00 crore during April-May 2020 with a view to manage the operations during business disruptions on account of COVID 19. The company has repaid the loans to its parent in June 2020, post improvement in liquidity.

**Experienced management team:** Established in 2002, the group is headed by Mr. V G K Prasad (Managing Director of IKF and Director of IKFHF). He has experience of more than three decades in asset financing business and the business operations of the group has benefited from his long established track record in the auto finance segment and the vast industry network developed over the years. He has also been associated with various other Industry Associations and has been the President of Federation of Indian Hire Purchase Associations (FIHPA). IKFHF is headed by Ms. Vasantha Lakshmi (Managing Director), who has nearly a decade of experience in the asset financing domain working in different aspects of the segment including sales, credit and manpower management. They are well supported by a team of qualified and experienced management team.

**Evolving management information system:** IKFHF had commenced its operation in FY17 and the company has been improving its MIS/technology platform to manage the business growth. With this view, it has recently implemented customized software by A3S, for ease of underwriting process and to ensure lower turn-around time. Further, IKFHF has support & guidance from its holding company for setting up efficient credit underwriting processes and collection & recovery mechanism.

**Satisfactory financial performance in FY20 and H1FY21:** During FY20, the AUM witnessed a growth of 50% to Rs.228 crore as on March 31, 2020. The total operating income grew to Rs.26.94 crore in FY20 from Rs.16.14 crore in FY19. NIM improved to 7.78% in FY20 from 7.59% in FY20. With the benefit of increase in scale of operations, the opex to average assets decreased from 7.32% in FY20 to 6.23% in FY19. The company has recognised Rs.8.80 crore income from the sale of portfolio through

direct assignment (DA). In view of Covid-19 and low seasoning the portfolio, the company has provided additional provisions than ECL requirement which increased the credit costs from 0.60% in FY19 to 2.79% in FY20. Aided by increase in NIM and lower operating expenses, income from DA, ROTA also improved to 5.10% in FY20 from 0.40% in FY19. Excluding the DA income the ROTA will be around 0.60%. The company's ability to improve profitability while keeping its credit costs under control would drive the growth prospects

During H1FY21 AUM grew by 24% to Rs.252 crore as on September 30, 2020 from Rs.203 crore as on September 30, 2019. During H1FY21, the company has reported a profit of Rs.3.05 crore on a total income of Rs.16.08 crore.

**Comfortable capitalization level and satisfactory asset quality**

Aided by the capital infusion from the promoters, the capital adequacy has been at comfortable level. Capital Adequacy Ratio (CAR) stood at 47.96% (PY: 53.57%) as on March 31, 2020 against the regulatory requirement of 13%. Tier I Capital stood at 46.71% (PY: 52.74%). The capitalization continued to remain comfortable in current fiscal with CAR and Tier I capital at 46.21% and 44.96% respectively as on September 30, 2020

The asset quality continues to remain satisfactory although there is a weakening on a y-o-y basis. Due to the gradual seasoning of the portfolio, GNPA and NNPA weakened to 0.98% and 0.59% as on March 31, 2020 as against 0.15% and 0.13% as on March 31, 2019. GNPA and NNPA as on September 30, 2020 stood at 1.01% and 0.98% respectively

**Key Rating Weaknesses**

**Limited track record and small scale of operations:**

IKFHF started operations in 2016 and hence the track record of the company remains limited. The scale of operations also remains relatively small with AUM of Rs.252 crore and a networth of Rs.52 crore as on September 30, 2020; although the AUM has witnessed continuous growth over the last 3 years. Though the asset quality remained comfortable, its asset quality performance through different economic cycles and geographies is yet to be established. Moreover, with increased number of branches and growth in portfolio in the recent past, ability of the company to manage its asset quality would remain critical.

**Regional concentration:** Four southern states (Telangana, Andhra Pradesh, Tamil Nadu and Karnataka) constituted around 81% of the AUM as on March 31, 2020 as against 82% as on March 31, 2019. Top state (Telangana) accounted for 36% of the AUM as on March 31, 2020. IKFHF's portfolio is expected to remain concentrated in the South India states, especially in Andhra and Telangana in the medium term.

**Concentrated resource & funding profile:** IKFHF has a concentrated funding resource base with major borrowings from few financial institutions including parent entity. During FY21, The company was able to tap in funds several PSU and through NHB Refinance. The company availed funds under TLTRO and NHB refinance with funds aggregating Rs.115 crore raised during 9MFY21. The company has an integrated treasury with its parent company which is expected to benefit IKFHF in availing funding from large banks and financial institutions using parent's relationship going forward. The integrated treasury and support from IKF is also expected to help the company in managing the natural asset liabilities mismatches in its longer tenure housing loans vis-à-vis funding profile having relatively shorter tenure.

**Inherent risk associated with borrower class:**

IKFHF is primarily lending towards the needs of the self- employed customers in the informal low and middle income segment who are not serviced by the banking sector. The company is lending at average yield of 17-18% and as the segment is highly susceptible to the impact of economic downturn, the credit costs might be higher. The ability of the company to absorb credit costs at comfortable levels while maintaining the sustainable yield and good asset quality while increasing the scale of operations would be important from credit perspective.

**Impact of COVID 19**

The business operation of NBFCs/HFCs have been initially impacted due to COVID crisis with slowdown of collections and disbursements at halt. While disbursements were minimal during the period April 2020 to May 2020, it has picked up from August 2020 onwards. Disbursements during H1FY21 stood at Rs.39 crore as against Rs.74 crore in H1FY20. In line with industry phenomenon, the collection efficiency during April, 2020 and May, 2020 stood at 53% and 42% respectively. With the lockdown easing the collection efficiency has been improving on a month on month basis and stood at about 95% in November 2020. There have been prepayments also which too has supported the liquidity.

The company has extended moratorium to all the customers who have requested moratorium during April- May 2020 and on a case to case basis for June July 2020 - August 2020.

**Liquidity: Adequate**

IKFHF's liquidity profile is adequate with no cumulative mismatches (considering cash balance) as on September 30, 2020 in any of the time buckets till 1 year. The company has extended the moratorium to its clients on April – August 2020.

The company has a cash and bank balance of Rs.32.73 crore as on December 31, 2020 as against the repayment of Rs.25.48 crore for the next 6 months (January – June 2021). Considering the collections along with cash balance, the company is expected to manage its liquidity adequately. IKFHF has taken moratorium from one bank during Moratorium 1.0 and Moratorium 2.0 and also from its parent during Moratorium 1.0.

**Analytical approach:** Standalone; factoring in the linkages with the parent, IKF Finance Limited (IKF). IKFHF is a subsidiary of IKF Finance Limited (IKF) and has strong management, operational & financial linkages with its parent company. Thus, the assessment of rating is based on factoring linkages with the parent company along with standalone financials of IKFHF.

#### Applicable Criteria

[Criteria on assigning Rating Outlook and Credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios-Financial Sector](#)

[Rating Methodology for Housing Finance Companies \(HFCs\)](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

#### About the Company

Incorporated in 2002 as IKF Financial Services Private Limited, IKF is registered Housing Finance Company (HFC) with NHB, and is primarily engaged in providing home loan products/refinance solutions. The company has presence majorly in South India across the States of Andhra Pradesh, Telangana, Karnataka, Tamil Nadu and Maharashtra. IKFHF has an AUM of Rs. 252 crore and has about 30% of its portfolio to the salaried segment & the rest towards self-employed segment.

The company was initially promoted by the promoters of IKF Finance Limited. However, the company was acquired by IKF Finance Limited in December 2018. IKF Finance Ltd is the group's major asset financing company and non-deposit taking NBFC primarily engaged in the business of commercial vehicle, construction equipment and SME segment financing. IKF Finance Ltd. holds 84.31% stake (on a fully diluted basis) in the company while the balance shareholding lies with the promoters.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total income	17.92	39.72
PAT	0.45	7.94
Interest coverage (times)	1.10	1.64
Total Assets	153.85	157.27
Net NPA (%)	0.13	0.59
ROTA (%)	0.40	5.10

A: Audited;

**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 for this company:** Annexure 4

#### Annexure-1: Details of Instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	50.00	CARE A-; Stable
Debt-Subordinate Debt (Proposed)	-	-	-	-	25.00	CARE A-; Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	175.00	CARE A-; Stable	1)CARE A-; Stable (14-Oct-20)	1)CARE A-; Stable (15-Jul-19)	-	-
2.	Fund-based - LT-Cash Credit	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (14-Oct-20)	1)CARE A-; Stable (15-Jul-19)	-	-
3.	Debentures-Non Convertible Debentures	LT	100.00	CARE A-; Stable	1)CARE A-; Stable (14-Oct-20) 2)CARE A-; Stable (12-Jun-20)	-	-	-
4.	Debentures-Non Convertible Debentures	LT	50.00	CARE A-; Stable	-	-	-	-
5.	Debt-Subordinate Debt	LT	25.00	CARE A-; Stable	-	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable****Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Debt-Subordinate Debt	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra

Contact no.: +91-22-6837 4424

Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Puja Jalan

Contact no.: +91-9160001511

Email ID: [puja.jalan@careratings.com](mailto:puja.jalan@careratings.com)

### Relationship Contact

Ramesh Bob

Contact no.: + 91-90520 00521

Email ID: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)

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