

KIFS Financial Services Limited

June 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term/ Short term Bank Facilities	25.00	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/A Two)	Assigned
Total Facilities	25.00 (Rupees Twenty Five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KIFS Financial Services Limited (KFSL) derive strength from its strong parentage, being part of Khandwala group which has track record of operations of more than three decades in various financial services businesses along with KFSL's operational & financial linkages with various Khandwala group entities, especially with the equity broking arm of the group, KIFS Trade Capital Pvt. Ltd. (KTPL). The ratings also derive strength from the adequate risk management systems shared across various businesses in the group, comfortable liquidity profile of the group as well as of KFSL, low reliance on external debt to fund business requirements across the group and KFSL's good asset quality.

The ratings, however, are constrained on account of KFSL's modest scale of operations with volatility associated with its loan portfolio which has direct linkage to various fluctuations in the equity capital markets, moderately diversified loan portfolio and risk associated with unsecured lending in the form of inter corporate deposits (ICDs), a large part of which is advanced to various group entities.

KFSL's ability to grow its loan portfolio through greater product diversification while maintaining its asset quality would be the key rating sensitivities. Continued support from various entities in the Khandwala group would also be a key monitorable from the credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage, being part of Khandwala group which has track record of operations of more than three decades in various financial services businesses: KFSL is a part of Khandwala Group and is promoted by three brothers, Mr. Rajesh Khandwala, Mr. Jayesh Khandwala and Mr. Vimal Khandwala along with their family members. The group has established presence of more than three decades across various financial services businesses including stock & commodities broking, arbitrage, depository services, portfolio management services, housing finance, bullion trading along with real estate business. The group has presence across 132 cities/towns in India with more than 700 franchises, primarily through the group's equity and commodities broking business.

Operational and financial linkages with various Khandwala group entities: KFSL acts as the lending arm for KTPL, the broking entity of the group, for its loan against securities (LAS) and margin funding businesses. Also, KFSL and KTPL share a common risk management system (RMS) for seamless monitoring of clients' trading, depository and loan accounts. KFSL thus derives benefit of operational synergies with KTPL in terms of access to its clientele (for loan origination and investing behavior), shared resources and low operational costs. Also, KFSL extends ICDs to various group entities and major portion of debt availed by KFSL as on December 31, 2018 was in the form of ICDs received from group entities underlining its financial linkages within Khandwala group.

Adequate risk management systems in place for adherence to various risk mitigation policies: KFSL has a robust RMS in place for its exposure towards the equity markets through various instruments. KFSL generally allows exposure only in top 500 traded scrips as well as government securities for LAS that it extends to its clients. Further, there is also a cap on security-wise exposure, evaluated based on the security under consideration and its likely movement envisaged in the same by the RMS team which helps in alleviating the risk of sudden fluctuation in the market value of underlying securities, thereby protecting the loan exposure of KFSL. Also, KFSL strictly adheres to margin calls and squaring off of position in case of non-compliance to margin calls, which has translated into good asset quality for the company over the last few years.

Comfortable liquidity profile: KFSL had comfortable liquidity on account of its access to funding from various group entities. These loans have been KFSL's major source of funding over the past three years, in addition to its own networth, which stood at Rs.29.94 crore as on December 31, 2018. The group as a whole also had comfortable liquidity marked by unutilized lines of

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

credit of more than Rs.100 crore as March 31, 2019 and moderate utilization of limits placed with stock exchanges in the flagship entity, KTPL.

KFSL's comfortable capital structure and good asset quality: KFSL had a healthy networth base compared with its limited scale of operations resulting in a comfortable capital structure, marked by overall gearing of 0.67x as on December 31, 2018. KFSL's reliance on bank debt also remained low with major source of funding being in the form of ICDs received from various group entities. Also, strict adherence to risk mitigation practices has resulted in good asset quality with Nil NPA reported over the past three years ended FY18.

Low reliance on external debt for the Khandwala group on a combined basis: The Khandwala group, on a combined basis, had a sizeable networth base exceeding Rs.600 crore with fairly low leverage marked by an overall gearing below 0.35x as on March 31, 2019. This provides the group with adequate financial flexibility to raise resources for its various businesses, including that for KFSL.

Key Rating Weaknesses

Modest scale of operations along with volatility associated with the loan portfolio: KFSL operates on a modest scale with loan portfolio of Rs.39.58 crore as on March 31, 2018 which increased marginally to Rs.44.77 crore as on December 31, 2018. Due to direct linkage of LAS and margin funding (which formed around 73% of its loan portfolio as on December 31, 2018) with the capital markets, KFSL's loan portfolio has remained volatile over the years.

Moderately diversified loan portfolio with exposure towards unsecured lending: KFSL had a concentrated loan portfolio with LAS & margin funding constituting around 78% of its total loan portfolio as on March 31, 2018 which however, moderated marginally to 73% as on December 31, 2018. This makes KFSL's performance dependent largely on the demand for finance from the clients of the brokerage arm, KTPL, which in turn is exposed to volatility in capital markets. Also, around 20-25% of KFSL's loan portfolio is contributed by way of ICDs, primarily to various group entities. This exposes the company to the risk of non-recoveries, as the loans extended are unsecured in nature with no assets available to liquidate in case of any delinquencies.

Analytical approach: Standalone approach along with factoring in linkages with the group
 KFSL has financial and operational linkages with various entities of the Khandwala group as mentioned below:

- A majority of the debt availed by KFSL is by way of inter-corporate deposits (ICDs) from various group entities
- A part of the ICDs extended by KFSL are to group entities
- Almost entire customer base of KFSL for its LAS and margin funding business originates from KTPL.

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Factoring Linkages in Ratings](#)

[Rating Methodology – Non-Banking Financial Companies](#)

[Financial ratios - Financial Sector](#)

About the Company

Incorporated in 1995, KFSL got registered with RBI as a Non-Banking Financial Company (NBFC) under the category of loan company in February 1998. The company is engaged in providing LAS, margin funding and ICDs and had an outstanding loan portfolio of Rs.44.77 crore as on December 31, 2018.

KFSL is a part of Khandwala group and is a subsidiary of KIFS Commercial Private Limited (KCPL), a proprietary trading entity of the group. The Khandwala Group has an established presence of more than 30 years across various businesses including stock & commodities broking, depository services, portfolio management services, housing finance loans, bullion trading (including gold refining), real estate as well as arbitrage trading.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	8.49	6.05
PAT	3.35	3.00
Interest coverage (times)	2.76	4.92
Total Assets	53.80	46.39
Net NPA (%)	-	-
ROTA (%)	4.54	5.99

A: Audited

During 9MFY19, KFSL reported a total income of Rs.3.93 crore with a PAT of Rs.1.99 crore as against a total income of Rs.4.34 crore and a PAT of Rs.1.93 crore during 9MFY18.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-LT/ST	-	-	-	25.00	CARE BBB+; Stable/ CARE A2

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based-LT/ST	LT/ST	25.00	CARE BBB+; Stable / CARE A2	-	-	-	-

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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