

Kogta Financial (India) Limited

January 07, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Proposed Non-Convertible Debenture (Secured NCD)	27.00	CARE A-; Stable [Single A Minus; Outlook: Stable]	Assigned
Total Instruments	27.00 (Rupees Twenty Seven crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the above proposed NCD issue of Kogta Financial (India) Ltd (KFL) continues to derive strength from long experience of the promoters and KFL in the financing industry, diversified product portfolio with major focus on commercial vehicle (CV) financing, well-managed origination, credit appraisal, collection and in-house Management Information System (MIS) along with expansion of resource base over a period of time and growing scale of operations through increased geographical diversification in FY19 (refers to the period April 1 to March 31) and H1FY20. The rating also factors KFL's ability to raise funds from PE investors in recent years as reflected from the fund infusion of Rs.301.00 crore by PE investors in October 2019 which led to augmentation in its net-worth and Capital Adequacy ratio.

The rating, however, continues to remain constrained on account of its moderate earnings profile, financing relatively riskier borrower segment with moderate seasoning of loan portfolio and its moderate asset quality.

Rating Sensitivity

Positive Factor

- Significant growth in loan portfolio along with adequate portfolio seasoning
- Diversification in terms of geography and resource base along with sustained improvement in asset quality

Negative Factor

- Deterioration in profitability – decline in ROTA below 1.5%
- ALM position shows negative mismatches exceeding RBI regulatory norms
- Deterioration in asset quality – Gross NPA more than 6%
- Overall gearing exceeding 4 times

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters: Mr. Radha Krishan Kogta (Chairman), key promoter of the company, has vast experience of more than 17 years in the finance sector especially vehicle financing and has been instrumental in driving the growth of the company since inception. Currently, Mr. Arun Kogta (having more than a decade of experience) is looking after the operations and geographical expansion activities while Mr. Varun Kogta (having more than a decade of experience) is looking after Finance, IT and HR functions. Both of them are also involved in strategic decision making. Further, the addition of new PE fund has also benefited KFL in the form of experienced nominee directors of PE fund joining the Board of Directors.

Comfortable capital structure on account of regular fund infusion: Over the period of last three years ended March 31, 2019, KFL has consistently received funds aggregating Rs.184.25 crore from different fund houses. In FY17 & FY18, KFL received funds in the form of compulsory convertible preference shares (CCPS) of Rs.30.00 crore from IIFL Seed Venture Fund. In FY19, KFL received funds of Rs.154.25 crore in the form of CCPS from Morgan Stanley Private Equity Asia and IIFL Seed Ventures. In October 2019, KFL received funds of Rs.301 crore in the form of CCPS from Aditya Mauritius Limited (Rs.225.03 crore; a fund managed by Creador Advisory LLP), NHPEA Rimo Holding BV (Rs.75.97 crore; a fund managed by Morgan Stanley Private Equity Asia) and Rs.1.00 crore from individual investor (Prakesh Chand Jain) in KFL. CCPS has a tenor of 20 years with option of exit route through IPO and secondary sale after 4.5 years. There are no conditions attached in the recent infusion regarding mandatory buy back of shares from promoters and by company post completion of 4.5 years. Regular fund infusion led to improvement in KFL's net worth to Rs.228.70 crore as on March 31, 2019 and is envisaged to stand at around Rs.562 crore by March, 2020. Overall gearing of the company has improved to 1.79 times as on March 31, 2019 from 4.62 times as on March 31, 2018. Further, overall CAR has improved to 39.23% as on March 31, 2019 from 20.65% as on March 31, 2018. Overall CAR stood at 34.90% as on June 30, 2019, however the same has improved after fund infusion in October 2019.

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

Long track record of operations: KFL has a long track record of two decades in the industry. Over the years, KFL has built a large customer base with active customers of 27,308 as on June 30, 2019 (*19,332 as on September 30, 2018*) leading to substantial repeat business with less effort. Also, it has built decent employee strength of 950 as on March 31, 2019 (*825 as on September 30, 2018*) including professional team of top management. Further, over a period of time, KFL has built good relations with Direct Selling Agents (DSA) leading to y-o-y growth in disbursements.

Primarily secured nature of business; albeit financing to relatively riskier borrower segment: KFL has secured loan portfolio of 99.47% (% of total AUM (*own book + securitized*)) as on March 31, 2019) which is secured against the vehicles, equipment's and property mortgage. However, short term personal loans are unsecured in nature which stood at around 0.53% (P.Y.:2.25%) of total AUM as on March 31, 2019. KFL is primarily into financing of commercial vehicle, multi utility vehicle and cars. Commercial vehicles (HCV + LCV + SCV), Tractors and Multi Utility Vehicle (MUV) accounted for nearly 53%, 8% and 8% respectively of total disbursement in FY19. KFL is engaged in originating retail advances classified under priority sector and direct agricultural lending as per RBI guidelines. With focus on priority sector lending, KFL has presence in niche segment. KFL mainly caters to the financing needs of the self-employed segment in the lower to middle income category, which is unserved by banking sector, at higher rate of interest. Since self-employed segment is highly susceptible to the impact of economic downturn, asset quality will remain a key monitorable.

Well managed in-house appraisal, origination and collection team along with good MIS system: KFL has developed an in-house ERP system for online monitoring of all loan accounts and generation of required MIS reports. KFL has its own in-house IT team which keeps upgrading the systems on regular basis based on necessity. KFL has an established monitoring structure for overseeing its operations including area-wise, product-wise and sales executive-wise. It has defined credit appraisal, collection and monitoring systems including profile of clients, ticket size, KYC, etc. It has implemented specialized software with web based browser and user level restrictions to ensure speedy access to information with data security. Credit appraisal and final approval of loan is done by a dedicated team for ticket size below Rs.10 lakh while for above that approval is given by the top management itself.

Growing scale of operations with gradually expanding resource base: KFL's scale of operations has depicted steady growing trend; KFL's outstanding own book portfolio has increased by around 57% to Rs.548.35 crore as on March 31, 2019 compared to Rs.348.94 crore as on March 31, 2018, further it stood at Rs.615.29 crore as on June 30, 2019. KFL's total outstanding AUM (including securitized portfolio) increased by around 66% from Rs.428.51 crore as on March 31, 2018 to Rs.711.24 crore as on March 31, 2019 and Rs.770.45 crore as on June 30 2019. Further, KFL reported growth of 64% in its total income to Rs.105.31 crore in FY19 compared to Rs.64.20 crore in FY18 upon considerable growth in its AUM. Further, KFL has presence in 8 states (Gujarat, Maharashtra, Rajasthan, Madhya Pradesh, Delhi NCR, Haryana, Uttar Pradesh and Punjab) with 96 branches as on June 30, 2019. KFL has gradually increased its resource base; and as on September 30, 2019 KFL had 11 Banks (including 3 SFBs) and 22 Financial Institutions (3 Debt Funds & 19 NBFCs) on board. KFL has also raised debt through NCD issues and from covered bonds. Average borrowing cost continued to remain in the range of 11-12%. Apart from accessing bank facilities; it has raised funds to the tune of Rs.15 crore by issuing NCDs to Northern Arc Investment Managers Private Limited in H1FY20. Further, KFL has engaged with various lenders for raising money to the tune of around Rs.300 crore during H2FY20.

Moderately diversified product portfolio: The loan portfolio is diversified with CV (comprising 54% of total O/s portfolio (AUM) as on March 31, 2019), MUV (8.85%), Car loans (15.78%), LAP (10.42%), Tractor & Industrial Machinery, Tool & Equipment (9.68%) and short term personal loans (0.25%). The company also finances two wheeler loans which constituted the balance portfolio. This shields the company from slowdown in the off-take of new loans as well as delinquencies in any one sector to an extent. KFL finances both used and new vehicles.

Key Rating Weaknesses

Moderate seasoning of loan portfolio: KFL's own book loan portfolio has grown by around 57% in FY19 over FY18. Since a large proportion of its loan book was recently built, the seasoning for which is moderate and the performance of the recently built portfolio needs to be observed in the future. Moreover, since KFL is mainly into vehicle financing where average loan tenor range anywhere from 30 to 36 months therefore the seasoning of portfolio is inherently low. However, KFL derives comfort from repeat lending to its existing customers. As on June 30, 2019, proportion of O/s loan portfolio that has been funded during last 6 months stood at around 42% depicting moderate seasoning of loan portfolio.

Moderate geographical concentration: KFL has presence mainly in 8 states with major portion of loan portfolio in Rajasthan, Maharashtra and Gujarat comprising 43%, 23% and 22% of AUM (*43%, 23% and 22% as on March 31, 2019*) as on June 30, 2019 respectively as against 49%, 19% and 30% respectively as on March 31, 2018. KFL also has operations in Madhya Pradesh and Delhi NCR region which comprised of 5.81% and 1.67% of its AUM as on June 30, 2019 (5.68% and 1.45% as on

March 30, 2019) as against 2.93% and 0.10% as on March 31, 2018. Further in FY19 and Q1FY20, company has diversified its operations in Haryana, Uttar Pradesh and Punjab which together comprised of 5.83% (*Rs.44.89 crore*) of AUM as on June 30, 2019. KFL has expanded its operation by opening new branches during FY19 and Q1FY20; this led to further granular distribution of portfolio across 96 branches.

Moderate asset quality and moderate earning profile: KFL's NIM has been increasing for last three years mainly because of decline in average cost of borrowings. Further, NIM has marginally improved to 10.54% during FY19 from 10.26% in FY18 mainly on account of increase in interest income from deposits. However, ROTA has declined from 2.62% in FY18 to 2.12% in FY19 mainly on account of increase in operating expenses due to geographical diversification of operations in the form of branch expansion and higher disbursements in last quarter of FY19 which led to increase in loan portfolio. Adjusted ROTA (adding off balance sheet items to total assets) stood at 1.76% during FY19 as compared to 2.22% during FY18 mainly due to higher exceptional income during FY18 due to sale of fixed assets.

KFL's delinquencies in harder bucket (more than 90 days) for AUM remained at 2.62% as on March 31, 2019 as compared to 3.27% as on March 31, 2018. NPA level has remained moderate with Gross NPA and Net NPA of total loan portfolio (own book) at 3.39% (NPA recognition for dues more than 90 days) and 2.93% respectively as on March 31, 2019, while it stood at 4.46% and 3.88% as on June 30, 2019. Loan loss provisions to Average total asset stood at around 1.33% during FY19 as compared to 1.47% during FY18. KFL has major NPA in the HCV asset class at 5.69% as on March 31, 2019 which has increased to 8.47% as on June 30, 2019. HCV constituted around 17% of total AUM as on June 30, 2019.

Industry Outlook: Due to subdued economic environment, last three years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability. Also, with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90-day NPA recognition norm.

Liquidity: Adequate

Liquidity position of KFL as on March 31, 2019 has been adequate with working capital limit utilization remaining at 43.56% for 12 months ending Aug 2019 (TTM Aug 2018: 37.49%). KFL has comfortable ALM with cumulative mismatch in 6m-1year bucket after considering maturity of Outstanding CC limit as on March 31, 2019 in the 6m-1 year bucket. Further, the company has raised equity of Rs.301.00 crore in October 2019 which has provided additional liquidity cushion. KFL had free cash and bank balance and liquid investments of Rs.63.99 crore as on March 31, 2019 against the debt repayment obligation of Rs.125.44 crore during FY20. KFL has disbursed around Rs.50 crore per month during H1FY20. Further, KFL is expecting disbursement of around Rs.400 crore in next 6 months (H2FY20). KFL has also raised funds through NCD issues and Covered bonds. KFL has raised funds through securitization and direct assignment amounting Rs.158 crore during FY19. Furthermore, KFL has got sanction of Term Loan and Overdraft Limit amounting Rs.292 crore after Sep 2018 from banks, FIs and Small Finance Banks (SFBs) which shows its capability for raising debt even in a tough economic market scenario. Furthermore, KFL has free cash and cash equivalents of Rs.56.00 crore and sanctioned but not availed/unutilized bank lines at Rs.200.00 crore as on December 30, 2019 which underpins its liquidity.

Analytical approach: Standalone

Applicable Criteria:

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

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

[Rating Methodology-Non-banking Financial Companies](#)

[Financial Ratios – Financial Sector](#)

About the Company

Incorporated in 1996, Kogta Financial (India) Ltd. (KFL) is a Non deposit taking Non-Banking Finance Company (NBFC-ND) mainly operating in the states of Rajasthan, Gujarat, Maharashtra and Madhya Pradesh. It is primarily engaged in used and new vehicle financing including commercial vehicles, multi utility vehicles, cars, agriculture based vehicles, etc. apart from financing of loan against property and personal loans.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	64.20	105.31
PAT	8.33	11.25
Interest coverage (times)	1.41	1.39
Total Assets	392.68	667.16
Net NPA (%)	2.71	2.93
ROTA (%)	2.62	2.12

A: Audited

During H1FY20 (April 01, 2019 to Sep 30, 2019) KFL adopted Ind-AS for the first time and published its six- monthly financial results in November 2019, as per which, KFL earned PAT of Rs.4.99 crore on total income of Rs.73.18 crore. Further, its loan portfolio (own book) and AUM stood at Rs.790.81 crore and Rs.840.21 crore respectively as on Sep 30, 2019.

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

Status of non-cooperation with previous CRA: None

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
Proposed Debentures-Non Convertible Debentures	-	12.36%	-	27.00	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 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-Cash Credit	LT	100.00	CARE A-; Stable	1)CARE A-; Stable (04-Dec-19) 2)CARE A-; Stable (14-Nov-19)	1)CARE BBB+; Stable (02-Jan-19)	1)CARE BBB; Stable (08-Jan-18) 2)CARE BBB-; Positive (28-Jul-17) 3)CARE BBB-; Stable (11-Apr-17)	1)CARE BBB- (16-Jun-16) 2)CARE BBB- (13-Jun-16)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (08-Jan-18) 2)CARE BBB-; Positive (28-Jul-17) 3)CARE BBB-; Stable (11-Apr-17)	1)CARE BBB- (13-Jun-16)
3.	Fund-based - LT-Term Loan	LT	300.00	CARE A-; Stable	1)CARE A-; Stable (04-Dec-19) 2)CARE A-;	1)CARE BBB+; Stable (02-Jan-19)	1)CARE BBB; Stable (08-Jan-18) 2)CARE BBB-; Positive	1)CARE BBB- (16-Jun-16)

					Stable (14-Nov-19)		(28-Jul-17) 3)CARE BBB-; Stable (11-Apr-17)	
4.	Debentures-Non Convertible Debentures	LT	40.00	CARE A-; Stable	1)CARE A-; Stable (14-Nov-19)	1)CARE BBB+; Stable (02-Jan-19)	1)CARE BBB; Stable (08-Jan-18) 2)CARE BBB-; Positive (28-Jul-17) 3)CARE BBB-; Stable (11-Apr-17)	-
5.	Debentures-Non Convertible Debentures	LT	15.00	CARE A-; Stable	1)CARE A-; Stable (14-Nov-19) 2)CARE BBB+; Stable (25-Jul-19)	-	-	-
6.	Debentures-Non Convertible Debentures	LT	27.00	CARE A-; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Instruments	Detailed explanation
A. Financial covenants	<ul style="list-style-type: none"> Capital Adequacy (Tier 1 Capital + Tier 2 Capital) / Risk Weighted Assets) of >17% or as per the regulatory requirement prescribed by Reserve Bank of India, whichever is higher. The cumulative Asset – Liability Mismatch should always be positive to the extent of 10% or more in all the buckets up to 3 years (*). Asset Quality: Ratio of PAR-90 to Gross Loan Portfolio shall be 6% or lower. ("Gross Loan Portfolio" shall include on balance sheet and off balance sheet portfolio). <p><i>* Not more than 50% of the CC/OD/Working capital borrowings that are captured in the less than 1 year bucket will be assumed to be renewed for the purpose of this cumulative ALM mismatch covenants.</i></p>

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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