Kogta Financial (India) Limited

July 03, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Non-Convertible Debenture	50.00	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	**Assigned**
Non-Convertible Debenture	10.00	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	**Reaffirmed**
Total Instruments	**60.00 (Rupees Sixty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the instrument of Kogta Financial (India) Ltd (KFL) continues to derive strength from long experience of its promoters and that of 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 during the past two years-ended FY20 (refers to the period April 1 to March 31). The rating also factors KFL's ability to raise funds from Private Equity (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 along with moderate seasoning of loan portfolio and its moderate asset quality. CARE also takes cognizance of the company availing the moratorium granted by its lenders as a COVID relief measure (as permitted by the Reserve Bank of India) for the interest and installment repayments on its term loan/ working capital facilities from its lenders.

Rating Sensitivities

Positive Factors

- 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 Factors

- Deterioration in profitability – decline in ROTA below 1.5%
- ALM position shows negative mismatches exceeding RBI regulatory norms
- Significant decline in liquidity position due to impact on collection efficiency in the wake of Covid 19 pandemic situation and non-availability of fresh funding.
- Deterioration in asset quality with delinquency exceeding 6% of its Asset Under Management (AUM) (90+ dpd)
- 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) looks after the operations and geographical expansion activities while Mr. Varun Kogta (having more than a decade of experience) handles the Finance, IT and HR functions. Both are also involved in strategic decision making. Further, the addition of new PE investors has also benefited KFL in the form of experienced nominee directors of the PE fund joining its Board of Directors.

Comfortable capital structure on account of regular fund infusion: Over the period of 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 (Mr. 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

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

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 tangible net worth to Rs.218.19 crore (as per IND-AS) as on March 31, 2019 which further increased to Rs.542.63 crore as on March 31, 2020 (as per IND-AS). Overall gearing of the company has improved to 1.25 times as on March 31, 2020 from 2.41 times as on March 31, 2019 *(as per IND-AS) [Overall gearing as per IGAAP: 1.49 times]* as per its abridged published financials for FY20 on BSE. Further, overall CAR has improved to 58.80% as on March 31, 2020 as compared to 39.23% as on March 31, 2019.

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 34,101 as on March 31, 2020 *(23,702 as on March 31, 2019)* leading to substantial repeat business with less effort. Also, it has built decent employee strength of 1,619 as on March 31, 2020 *(974 as on March 31, 2019*) 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 99.80% (% of total AUM *(own book + securitized)* as on March 31, 2020) which is secured against the vehicles *(CVs, Four Wheelers, Two Wheeler, Tractors, equipment and property mortgage)*. However, short term personal loans are unsecured in nature which stood at around 0.20% of total AUM as on March 31, 2020. 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 42.29%, 7.74% and 9.01%, while LAP and Four Wheelers accounted for 21.09% and 19.05% of total disbursement in FY20 respectively. KFL is engaged in originating retail advances classified under priority sector and direct agricultural lending as per RBI guidelines.
KFL mainly caters to the financing needs of the self-employed segment in the lower to middle income category, which is un-serviced 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 details. 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 from Rs.671.62 crore as on March 31, 2019 (Rs.548.35 crore as per I-GAAP) to Rs.997.43 crore as on March 31, 2020 (as per IND-AS). KFL's total outstanding AUM (including securitized portfolio) increased from Rs.711.24 crore as on March 31, 2019 to Rs.1071.58 crore as on March 31, 2020, mainly due to increase in disbursement of around 33.39% during FY20 over FY19. KFL reported growth of 54.70% in its total income to Rs.169.38 crore in FY20 compared with Rs.109.49 crore in FY19 upon considerable growth in its AUM.

KFL has gradually increased its resource base and has 13 Banks (including PSU, Private banks and SFBs) and 19 Financial Institutions (2 Debt Funds & 17 NBFCs) on board as on March 31, 2020. KFL has also raised debt through NCD issues and from covered bonds. Average borrowing cost continued to remain in the range of 11-12% in FY20.

Moderately diversified product portfolio: The loan portfolio is well diversified with products having CV (comprising 46.26% of total O/s portfolio *(AUM)* as on March 31, 2020), MUV (8.17%), Four Wheeler loans (17.60%), LAP (19.84%), Tractor & Industrial Machinery, Tool & Equipment (7.70%) and short term personal loans (0.21%). 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 AUM has grown by around 50% in FY20 over FY19. 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.

Moderate geographical concentration: KFL has presence mainly in 8 states with major portion of loan portfolio in Rajasthan, Maharashtra and Gujarat which comprised 39%, 21% and 21% of its AUM *(43%, 23% and 22% as on March 31, 2019)* as on March 31, 2020 (Provisional). KFL also has operations in Madhya Pradesh and Delhi NCR region which comprised 7% and 3% of its AUM as on March 31, 2020, (6% and 1% as on March 31, 2019). Further in FY19 and FY20, company has diversified its operations in Haryana, Uttar Pradesh and Punjab which together comprised 9% of its AUM as on March 31, 2020. KFL has expanded its operation by opening new branches during FY19 and FY20; this led to further granular distribution of portfolio across 119 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 *(as per I-GAAP)* from 10.26% in FY18 *(as per I-GAAP)* mainly on account of increase in interest income from deposits, further NIM stood at 9.11% in FY20 (as per IND-AS). 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 with 2.22% during FY18 mainly due to higher exceptional income during FY18 due to sale of fixed assets. Further, ROTA stood at 2.48% for FY20 (as per IND-AS).

KFL's delinquencies in harder bucket (more than 90 days) AUM remained at 3.05% as on March 31, 2020 as compared with 2.62% as on March 31, 2019. NPA level has remained moderate with Gross NPA and Net NPA of total loan portfolio (own book) at 3.23% (NPA recognition for dues more than 90 days) and 2.59% respectively as on March 31, 2020 as compared with 3.39% and 2.93% as on March 31, 2019. Loan loss provisions to Average total asset stood at around 0.81% during FY20 as compared with 1.33% during FY19.

Subdued 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.
However, the spread of the COVID-19 pandemic has led to a nation-wide lockdown which is likely to impact the overall growth and collections of NBFCs/HFCs sector. As a result, in CARE's view the credit risk profile of NBFCs/HFCs is expected to deteriorate over the medium term. Liquidity profile, resource raising ability, funding support from parent/group and exposure to vulnerable asset classes and operating profiles in terms of geographies and borrower types would be critical monitorable factors in the NBFCs/HFCs sector.

Liquidity: Adequate
Liquidity position of KFL as on March 31, 2020 has been adequate with working capital limit utilization remaining at 33.13% for 12 months ending April, 2020. KFL has comfortable ALM with no cumulative mismatch in any of the time bucket up-to 3 years as on March 31, 2020. Its liquidity has been aided by fund infusion in the form of CCPS of Rs.301.00 crore in October 2019. KFL has also raised funds through NCD issues, covered bonds, securitization and direct assignment during FY20.
As per KFL's management, it had free cash and bank balance and liquid investments of Rs.10.10 crore and unutilized working capital limits of Rs.118.16 crore (including Overdraft against Fixed deposits) as on June 27, 2020 against its debt repayment obligation of Rs.83.78 crore in Q2FY21. KFL's collection efficiency stood at around 18% & 31% *(due to impact of Covid-19)* in April, 2020 and May 2020 respectively; however it is envisaged to improve to around 70% in June 2020. KFL has raised debt of around Rs.57.50 crore in last two months ended June, 2020. KFL has sought till May 2020 moratorium from its bankers and financial institutions under the RBI's COVID 19 package. KFL has also simultaneously provided the moratorium to its clients based on Opt-out policy to everyone.

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. The company has adopted the IND As notified under section 133 of the Companies Act 2013 read with the Companies Rule 2015 from April 01, 2019 and effective date of transition is April 01, 2018.

Brief Financials (Rs. crore)	FY19 (A)	FY19 (Abridged)	FY20 (Abridged)
Accounting policy followed	I-GAAP	Ind-As	Ind-As
Total operating income	105.31	109.49	169.38
PAT	11.25	8.30	24.94
Interest coverage (times)	1.39	1.28	1.54
Total Assets	667.16	752.23	1250.26
Net NPA (%)	2.93	NA	2.59
ROTA (%)	2.12	NA	2.48

A: Audited; NA: Not Available

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE192U07046	May 29, 2020	10.75%	June, 2023	10.00	CARE A-; Stable
Proposed Debentures-Non Convertible Debentures	-	-	-	-	50.00	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-Cash Credit	LT	100.00	CARE A-; Stable	1)CARE A-; Stable (01-Jun-20)	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)
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)
3.	Fund-based - LT-Term Loan	LT	300.00	CARE A-; Stable	1)CARE A-; Stable (01-Jun-20)	1)CARE A-; Stable (04-Dec-19) 2)CARE A-; Stable	1)CARE BBB+; Stable (02-Jan-19)	1)CARE BBB; Stable (08-Jan-18) 2)CARE BBB-; Positive

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
						(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	-	1)CARE A-; Stable (07-Jan-20)	-	-
7.	Debentures-Non Convertible Debentures	LT	10.00	CARE A-; Stable	1)CARE A-; Stable (01-Jun-20)	-	-	-
8.	Debentures-Non Convertible Debentures	LT	50.00	CARE A-; Stable	-	-	-	-

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

Instruments	Detailed explanation
A. Financial covenants	1. The capital adequacy ratio (as defined in RBI NBFC Regulations) shall be equal to 17% or above at all points in time. 2. The cumulative Asset – Liability Mismatch should always be positive to the extent of 10% or more in all the buckets up to 3 years. (**) 3. 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 *** - 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 covenant*
B. Non-Financial Covenant	1. In the event the Credit Rating of the Issuer is downgraded, the Coupon shall be increased by 0.50% for every notch of rating downgrade till BBB-. The step up coupon is applicable from the date of such downgrade until such event is cured, on the outstanding principal amount and accrued interest, if any, of the Debentures. For the purpose of this clause, if the Issuer is rated by more than one rating agency, then the lowest of the ratings shall be considered. 2. Investor reserves the right to recall the facility should there be any deterioration in the credit ratings of the company by two or more notches.

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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