

Kogta Financial (India) Limited

July 25, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Remarks
Proposed Non-Convertible Debenture issue	15.00	CARE BBB+; Stable (Triple B plus; Outlook Stable)	Assigned
Total Instruments	15.00 (Rupees Fifteen crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Kogta Financial (India) Ltd (KFL) continues to derive strength from increased net-worth base following recent equity infusion of Rs.154.25 crore in November 2018 by the PE investors which also led to improvement in capital adequacy, long experience of the promoters in the financing industry and growth in operational scale. The rating also derives strength from long-standing track record of operations, increased geographical diversification, diversified product portfolio, established Management Information System (MIS) and expansion of resource base over a period of time.

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

KFL's ability to increase its scale of operations with greater geographical as well as resource base diversification while improving its asset quality and profitability while maintaining capital adequacy are the key rating sensitivities.

Detailed description of the key rating drivers

Key rating strengths

Capital infusion resulting in improvement in capital adequacy ratio: KFL has received equity in the form of CCPS of Rs.154.25 crore in November, 2018 from Morgan Stanley Private Equity Asia (Rs.114.25 crore) and IIFL Seed Ventures (Existing investor, Rs.40 crore) in November, 2018. Further as per provisional FY19 financials net worth of the company stood at Rs.228.31 crore as on March 31, 2019. 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.

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.

Moderately diversified product portfolio: The loan portfolio is moderately diversified with wide range of products including used CV (comprising 56% of total O/s as on March 31, 2018), MUV (11%), Car loans (15%), LAP (8%) and short term personal loans (2%). Further as on March 31, 2019 KFL's portfolio mix comprised of 74% used vehicle, 15% new vehicle, 10% LAP and 1% Short Term Personal Loan. The company also finances two wheeler loans and tractor loans which constituted the balance portfolio.

Improvement in loan portfolio albeit moderate seasoning with broader resource base: KFL's outstanding own book portfolio has increased to Rs.548.56 crore as on March 31, 2019 from Rs.348.94 crore as on March 31, 2018. KFL's total outstanding AUM (including securitized portfolio) increased to around Rs.711.54 crore as on March 31, 2019. KFL is gradually increasing its resource base and currently enjoys bank facilities from 8 banks and 6 financial institutions. However, a large proportion of its loan book was built last year for which the seasoning is moderate and the performance of the recently built portfolio needs to be observed in the future.

Primarily secured nature of business: KFL has secured portfolio for vehicle financing and LAP while short term personal loans are unsecured in nature which formed small portion of around 0.53% (Rs.3.74 crore) of total AUM (own book + securitized) as on March 31, 2019 (September 30, 2018: 2%).

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

Established 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.

Adequate liquidity position: Liquidity position of KFL as on March 31, 2019 has been comfortable with working capital limit utilization remaining comfortable at 42.13% for 12 months ending March 31, 2019. Further though there is a mismatch in the 6m-1year bucket mainly due to considering maturity of outstanding CC limit of Rs.54.58 crore; however there is no cumulative mismatches in any of the bucket up-to 3 years as on March 31, 2019. Further, the company has raised equity of Rs.154.25 crore in November 2018 which led to comfortable liquidity position. Further, the company reported unencumbered cash and cash equivalents of Rs.11.44 crore as on March 31, 2019.

Key rating weaknesses

Moderate asset quality with moderate earnings profile: KFL's NIM has been declining for last three years mainly because of increase in debt availed to fund its loan portfolio. KFL's average lending rate stood at around 21.38% during FY19 as compared to 22.07% during FY18. KFL's ROTA continued to remain moderate at 2.12% in FY19 mainly because of increase in operating expenses following geographical expansion of operations and provisioning. KFL is controlling delinquencies in harder bucket as PAR (90 dpd) for AUM remained at 2.58% as on March 31, 2019 as compared to 3.27% as on March 31, 2018.

Moderate geographical concentration; gradual effort to diversify: KFL has presence mainly in Rajasthan, Gujarat and Maharashtra with 43%, 22% and 23% of total AUM outstanding portfolio as on March 31, 2019 (47%, 27% and 21% as on September 30, 2018) respectively. Further, in order to broaden its geographical base KFL has commenced operations in Madhya Pradesh and Delhi NCR where it has portfolio of Rs.40.43 crore and Rs.44.44 crore respectively as on March 31, 2019 (Rs.22.78 crore and Rs.6.12 crore respectively as on September 30, 2018).

Industry Outlook: Over the last few years, the NBFC sector has gained systemic importance with increase in share of NBFC credit vis-à-vis total bank credit. The same has resulted in the Reserve Bank of India (RBI) taking various policy actions resulting in NBFCs attracting higher support and regulatory scrutiny. The RBI revised the regulatory framework for NBFCs in 2014 which broadly focused on strengthening the structural profile of NBFC sector, thereby safeguarding depositors' money and regulating NBFCs which have increased their asset-size over time and gained systemic importance. On the asset quality front, despite the gradual change in the NPA recognition norms from 180 days previously to 90 days by March, 2018, the asset quality has remained largely stable for the sector and far superior to banks. The sector is in the midst of a liquidity stress scenario, with disruptions in the short-term commercial paper market, sharp correction in stock prices of NBFCs and cautious approach taken by the banks towards lending to the sector. Asset quality, liquidity and profitability will be the key monitorables for the sector going forward.

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 Sector Ratios](#)

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 (Prov.)
Total operating income	64.20	105.43
PAT	8.33	11.25
Interest coverage (times)	1.41	1.40
Total Assets	392.68	667.14
Net NPA (%)	2.71	2.84
ROTA (%)	2.62	2.12

A: Audited

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	-	15.90%	-	15.00	CARE BBB+; 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	74.00	CARE BBB+; Stable	-	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	126.00	CARE BBB+; Stable	-	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)
4.	Debentures-Non Convertible Debentures	LT	40.00	CARE BBB+; Stable	-	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 BBB+; Stable	-	-	-	-

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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact:

Name: Anurag Jain
Mobile: +91-9586284746
Tel: 0141 – 4020213/214
Email: anurag.jain@careratings.com

Business Development Contact

Name: Nikhil Soni
Tel: 0141 – 4020213/214
Contact no. : +91 – 95490 33222
Email ID: nikhil.soni@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**