

April 16, 2021

## Infina Finance Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	1,200.00	1,200.00	[ICRA]A1+; reaffirmed
Commercial Paper (IPO Financing) Programme	10,000.00	10,000.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>11,200.00</b>	<b>11,200.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating factors in the strong parentage enjoyed by Infina Finance Private Limited (Infina) by virtue of being an associate of the Kotak Mahindra Bank Group. Kotak Mahindra Capital Company Limited (KMCC), a wholly-owned subsidiary of Kotak Mahindra Bank {KMBL; rated [ICRA]AAA(Stable)}, holds a 49.99% stake in Infina while the balance is held by the Kotak family through other closely-held entities. The rating also takes into account the company's strong net worth (Rs. 1,865 crore as of December 31, 2020), robust capitalisation (CRAR of 102.04% as on December 31, 2020) and considerable financial flexibility in raising funds at competitive rates, given its status as an associate of the Kotak Mahindra Bank Group. The rating further factors in the volatility in the earnings profile. ICRA notes that the planned increase in the loan book is expected to reduce the share of trading income in the total income. While reaffirming the rating, ICRA has taken note of the concentration risk associated with the lending book and the inherent risks associated with the capital markets lending and trading business. The company's comfortable asset quality (gross non-performing assets (GNPAs) of 0.0% as on December 31, 2020) and adequate risk management systems and policies provide comfort.

While the company's gearing remains comfortable, ICRA takes note of the likely increase in the gearing for ~one to two weeks when the company would utilise commercial paper (CP) for initial public offering (IPO) financing and for a proprietary IPO application. The company monitors the regulatory capital requirements on a continuous basis, including during the time of the IPO financing for its clients and its own proprietary book.

### Key rating drivers and their description

#### Credit strengths

**Part of Kotak Mahindra Bank Group as an associate company** – KMCC (wholly-owned subsidiary of KMBL) held a 49.99% stake in Infina, as on December 31, 2020, while closely-held companies of the Kotak Group's promoters held the balance. As an associate of the Kotak Mahindra Bank Group, Infina enjoys considerable financial flexibility in raising funds at competitive rates. Any substantial change in the company's shareholding pattern or in the credit profile of its shareholders would be a key rating sensitivity.

**Comfortable asset quality** – The company's asset quality remains comfortable with nil gross and net NPAs as on December 31, 2020, March 31, 2020 and March 31, 2019. Infina follows risk management policies and processes, which are similar to that of the Kotak Group. The company keeps adequate security cover in the loan against shares segment and sufficient margins while funding for IPOs. Moreover, it follows a robust underwriting mechanism, which provides further comfort.

**Robust capitalisation and strong liquidity profile** – As on December 31, 2020, Infina had a strong net worth of Rs. 1,865 crore with a capital adequacy ratio of 102.04%, significantly above the regulatory requirements. It also has a significant trading book, which can be liquidated if the need arises. Further, by virtue of being an associate of the Kotak Group, Infina enjoys

considerable financial flexibility in raising funds at competitive rates. Moreover, support is expected from the promoters as and when needed. ICRA does not expect any funding concerns for the company.

## Credit challenges

**Volatility in earnings profile** – Proprietary trading (both realised and unrealised) and interest income are the two major sources of income for Infina. Hence, its revenue profile remains significantly exposed to the inherent volatility in the securities market, led by factors including changes in yields, spreads and prices. In FY2020, the company posted a loss of Rs. 51 crore (Rs. 31 crore in FY2019), resulting in a negative return on assets (RoA) of 2.9% (1.6% in FY2019). The losses in FY2020 were largely on account of the mark-to-market losses in the trading portfolio and higher operating expenses. In 9M FY2021, the company reported a net profit of Rs. 160.63 crore backed by a higher trading gain of Rs. 146.19 crore and higher IPO financing business with improved net interest margins (NIMs). However, ICRA takes comfort from the fact that the company follows a long/short trading strategy, which helps it in partially mitigating the market risks associated with trading in equity capital markets. ICRA notes that the company is diversifying its revenue base by increasing the loan against securities (LAS) book (Rs. 836 crore as of December 31, 2020). These are larger ticket size promoter funding secured loans and the credit costs will remain a key rating monitorable.

**Client concentration risks** – The company's top 20 exposures formed a sizeable portion (72% and 90% of the portfolio and 24% and 50% of the net worth as on March 31, 2020 and December 31, 2020, respectively) of the overall loan book. The loan book declined to Rs. 164 crore as on March 31, 2020 from Rs. 358 crore as on March 31, 2019 with the repayment of the loan by the associate company. However, the company started lending in the LAS segment in Q3 FY2021 resulting in an increase in the loan book to Rs. 979.89 crore as on December 31, 2020. Infina's outstanding debt was nil as on March 31, 2020 and the loan book was entirely funded by own funds. However, ICRA expects the debt levels to rise in future with the increasing loan book, though the gearing levels are expected to remain comfortable.

## Liquidity position: Strong

Infina's liquidity position is strong, supported by stock-in-trade apart from a cash and bank balance and fixed deposits (unlien), while the borrowings are usually in the form of CP. As on February 28, 2021, the company had outstanding debt of Rs. 65 crore while it had a free cash and bank balance, liquid investments, unutilised bank lines and fixed deposits of Rs. 479 crore (excluding fixed deposits (with a lien) of Rs. 13 crore for open derivative positions). As an associate of the Kotak Group, the company has the ability to raise funds at competitive rates. ICRA does not foresee any liquidity risk in the near term.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – A material change in the expected level of support from the Kotak Mahindra Bank Group or a significant deterioration in the credit risk profile of the Kotak Mahindra Bank Group could warrant a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Group Support: Kotak Mahindra Bank Group  The rating factors in the financial flexibility enjoyed by Infina by virtue of being an associate company of the Kotak Mahindra Bank Group
Consolidation/Standalone	Standalone

## About the company

Infina Finance Private Limited is a non-deposit taking non-banking financial company (NBFC) involved in the activities of proprietary trading, loan against shares and IPO financing. It has also started private equity investments though the scale of operations remains small. The company's net worth was built in 2006 when certain strategic investments were divested with Infina deriving large capital gains. It is an associate company of the Kotak Group, with Kotak Mahindra Capital Company Limited (KMCC), a wholly-owned subsidiary of KMBL, holding a stake of 49.99% in the company. The balance is closely held by the Kotak family.

The loan book stood at Rs. 980 crore as on December 31, 2020 against Rs. 164 crore as on March 31, 2020. Based on IndAS accounting, Infina reported a net loss of Rs. 51.31 crore in FY2020 on a total asset base of Rs. 1,722.86 crore as on March 31, 2020 compared to a net loss of Rs. 30.57 crore in FY2019 on a total asset base of Rs. 1,798.11 crore as on March 31, 2019. In 9M FY2021 (IndAS), Infina reported a net profit of Rs. 160.63 crore on a total asset base of Rs. 1,917.80 crore as on December 31, 2020.

### Key financial indicators (audited)

Infina Finance Private Limited	FY2019	FY2020	9M FY2021*
Total income (Rs. crore)	46.72	93.61	238.13
Profit / (loss) after tax (Rs. crore)	(30.57)	(51.31)	160.63
Net worth (Rs. crore)	1,756.67	1,705.10	1,865.73
Loan book (Rs. crore)	357.78	164.10	979.89
Total assets (Rs. crore)	1,798.11	1,722.86	1,917.80
Return on assets (%)	(1.56%)	(2.91%)	11.75%
Return on net worth (%)	(1.73%)	(2.96%)	11.98%
Gross gearing (times)	0.00	0.00	0.00
Gross stage 3 (%)	0.00	0.00	0.00
Net stage 3 (%)	0.00	0.00	0.00
Solvency (Net stage 3/Net worth)	0.00	0.00	0.00
CRAR (%)	152.61%	318.15%	102.04%

Source: Company, ICRA research; \* Provisional numbers; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years													
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020				Date & Rating in FY2019						
					Apr 16, 2021	Sep 24, 2020	Sep 10, 2020	Mar 11, 2020	Feb 07, 2020	Aug 06, 2019	April 11, 2019	Dec 12, 2018	Sep 19, 2018	Aug 20, 2018	July 25, 2018	June 22, 2018	May 15, 2018
1 Commercial Paper Programme (IPO financing)	Short Term	10,000	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
2 Commercial Paper Programme	Short Term	1,200	325.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

#### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE879F14DE7	Commercial Paper Programme	15-Feb-21	4.70%	12-Aug-21	65.00	[ICRA]A1+; reaffirmed
INE879F14DK4	Commercial Paper Programme	10-Mar-21	5.10%	10-Mar-22	75.00	[ICRA]A1+; reaffirmed
INE879F14DL2	Commercial Paper Programme	10-Mar-21	4.97%	4-Mar-22	35.00	[ICRA]A1+; reaffirmed
INE879F14DQ1	Commercial Paper Programme	31-Mar-21	3.65%	28-Jun-21	150.00	[ICRA]A1+; reaffirmed
Not Yet Placed	Commercial Paper Programme	NA	NA	7-365 days	875.00	[ICRA]A1+; reaffirmed
Not Yet Placed	Commercial Paper (IPO financing) Programme	NA	NA	7-30 days	10,000.00	[ICRA]A1+; reaffirmed

Source: Company

#### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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