

July 29, 2022

## SK Finance Limited (erstwhile Ess Kay Fincorp Limited): Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Principal Protected Market Linked Debentures (PP-MLD)	125.00	125.00	PP-MLD [ICRA]AA+(CE) (Stable); reaffirmed
PP-MLD	50.90	50.90	PP-MLD [ICRA]AA+(CE) (Stable); reaffirmed
Non-convertible Debentures	104.17	104.17	[ICRA]AA+(CE) (Stable); Outstanding
Non-convertible Debentures	35.00	35.00	[ICRA]A+ (Stable); Outstanding
LT – Market Linked Debentures	150.00	150.00	PP-MLD [ICRA]A+ (Stable); Outstanding
Long-term Fund-based Term Loan	275.00	275.00	[ICRA]A+ (Stable); Outstanding
<b>Total</b>	<b>740.07</b>	<b>740.07</b>	

Rating Without Explicit Credit Enhancement	[ICRA]A+
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\*Instrument details are provided in Annexure 1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

### Rationale

The rating action considers the structural features available in each transaction such that in the event of non-payment by SK Finance Limited (SKFL) of its expected repayments, the respective cover pools would be utilised to support the servicing of the rated instruments. The key structural features of the rated instruments are summarised below.

Instrument	Trust Name	Security Cover	Structural Feature
Rs. 125.00-crore PP-MLD	Elements 2021 CE MLD	1.30x cover pool ^	Pool to be assigned to the trust on the occurrence of predefined trigger events; post trigger events, all collections from the cover pool will be transferred to the Debenture Trustee of the rated MLDs
Rs. 50.90-crore PP-MLD	Northern Arc 2021 CE MLD Hemera	1.30x cover pool ^	

^ The cover pool requirement is calculated on the outstanding principal and accrued interest

The rating also draws comfort from SKFL's established presence in the used vehicle financing space and its demonstrated ability to scale up its business, while maintaining healthy capitalisation and controlling slippages, despite the challenging operating environment. Nonetheless, post any trigger event, the performance of the cover pool would be exposed to any further disruptions that may arise due to the Covid-19 pandemic.

### Structure details, adequacy of credit enhancement and salient features of rated instruments

Details on the structure, adequacy of the credit enhancement and salient features of each rated instrument are available in ICRA's fresh rating rationales.

Rs. 125.00-crore PP-MLD (Elements 2021 CE MLD): [Click here](#)

Rs. 50.90-crore PP-MLD (Northern Arc 2021 CE MLD Hemera): [Click here](#)

## Key rating drivers and their description

### Credit strengths

**Presence of cover pool to support servicing of the rated facility in the event of non-payment by entity** – The primary obligation of meeting the market linked debenture (MLD) payments is on SKFL. However, if SKFL does not meet the expected payment on the MLDs, the collections from the cover pool will be available to the Debenture Trustee. The principal as well as the interest on the MLDs are promised to the MLD investors on the legal maturity date.

**Stringent eligibility criteria for cover pool** – The eligibility criteria for the cover pool of both instruments is stringent. Contracts at the time of assignment should be current. For the Northern Arc 2021 CE MLD Hemera pool, the proportion of assets which are delinquent, but less than 30 days, should be less than 10% of the pool principal outstanding. For the Elements 2021 CE MLD pool, the proportion of assets which are delinquent, but less than 30 days, should be less than 5% of the pool principal outstanding.

**Credit enhancement in the form of over-collateralisation** – Both instruments have credit enhancement in the form of over-collateralisation of 1.30x, which acts as a buffer if the collections from the cover pools decline.

### Credit challenges

**Occurrence of trigger event would expose transaction's performance to cover pool's performance at that point of time** – The pools in the transactions would have to be maintained as per the eligibility criteria and would become fixed post the occurrence of a trigger event. Thus, on the occurrence of a trigger event, the performance of the transactions would be exposed to the performance of the cover pools at that point of time.

**Performance of pools would remain exposed to disruptions caused by the pandemic, post trigger event** – Borrowers continue to face several challenges following the spread of Covid-19 infections throughout the country. These include the continuity of business operations and the possible adverse impact on the asset quality if the cash flows and economic activity slow down again. SKFL's ability to navigate through the adversity and manage the impact on the business growth and asset quality would remain critical from a rating perspective, going forward. The performance of the pools would remain exposed to the disruptions being caused by the pandemic, post a trigger event.

## Liquidity position

### For PP-MLD [ICRA]AA+(CE) (Stable): Strong

The principal and the interest amounts on the MLDs are promised to the lender on the legal final maturity date, subject to the non-occurrence of a trigger event. The cash flows from the cover pool are expected to be comfortable to meet the debt servicing in the event that the entity is unable to meet the scheduled payments on the MLDs.

### For the [ICRA]A+ rating without explicit credit enhancement: Strong

The short-to-medium tenure of the loans extended by SKFL (average tenure of 3.5 to 4 years) augurs well with the weighted average tenure of the term facilities availed by the company and reflects positively in the asset-liability maturity (ALM) profile as on March 31, 2022. SKFL's ALM profile, in the normal course of business, is characterised by positive cumulative mismatches in the buckets up to 1 year. As per the ALM profile as on March 31, 2022, the company has debt maturities of Rs. 1,773 crore

for the 1-year period ending March 31, 2023 against which the expected inflows were Rs. 1742 crore from the performing advances. The liquidity is further supported by the on-balance sheet liquidity of Rs. 1056 crore (cash and bank balances coupled with fixed deposits maturing in 3 months) and unutilised bank lines including CC lines of Rs. 1,108 crore as on March 31, 2022.

## Rating sensitivities

### For the PP-MLD [ICRA]AA+(CE) (Stable) rating

**Positive factors** – The rating is unlikely to be upgraded in the near term.

**Negative factors** – The rating could be downgraded on non-adherence to the key transaction terms envisaged at the time of assigning the same. The rating could also come under pressure on a deterioration in SKFL's credit profile.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Non-banking Finance Companies</a> <a href="#">Covered Bond Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the company

Incorporated in 1994, SKFL is a Jaipur (Rajasthan) headquartered non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). It primarily finances used light commercial vehicles, multi-utility vehicles, cars, tractors and two-wheelers. It also advances small and medium enterprise (SME) loans. SKFL had a network across 10 states, namely Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Punjab, Haryana, Chhattisgarh, Uttarakhand, Himachal Pradesh and Delhi, though concentration towards Rajasthan remains high with a share of ~62% in the portfolio as on March 31, 2022. As on March 31, 2022, the assets under management (AUM) stood at Rs. 4,714 crore.

The promoter group, viz. Mr. Rajendra Setia and his family members, held 38.8% equity share in the company as on March 31, 2022. Other key equity investors include Northwest Venture Partners, TPG Capital, Evolve and Baring India with equity shareholding of 24.4%, 18.9%, 4.2% and 4.7%, respectively, as of March 31, 2022.

### Key financial indicators (audited)

SKFL	FY2021	FY2022
Total Income	683	821
Profit after tax	91	143
AUM	3,417	4,714
Gross NPAs	4.1%	2.8%
Net NPAs	1.9%	2.0%

Source: Company, ICRA research; All ratios as per ICRA's calculations  
Amount in Rs. crore

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021						Date & Rating in FY2020
					Jul 29, 2022	Jul 30, 2021	Mar 18, 2021	Mar 10, 2021	Feb 4, 2021	Feb 1, 2021	Dec 2, 2020	Nov 19, 2020	-
1	PP-MLD	Long term	125.0	125.0	PP-MLD [ICRA]AA+(CE) (Stable)	PP-MLD [ICRA]AA+(CE) (Stable)	PP-MLD [ICRA]AA+(CE) (Stable)	Provisional PP-MLD [ICRA]AA+(CE) (Stable)	-	-	-	-	-
2	PP-MLD	Long term	50.9	50.9	PP-MLD [ICRA]AA+(CE) (Stable)	PP-MLD [ICRA]AA+(CE) (Stable)	-	-	PP-MLD [ICRA]AA+(CE) (Stable)	Provisional PP-MLD [ICRA]AA+(CE) (Stable)	-	-	-

For details on other ICRA-rated instruments of the company, refer to the rationales given [here](#)

### Complexity level of the rated instrument

Transaction Name	Instrument	Complexity Indicator
Elements 2021 CE MLD	Principal Protected Market Linked Debentures (PP-MLD)	Highly Complex
Northern Arc 2021 CE MLD Hemera	Principal Protected Market Linked Debentures (PP-MLD)	Highly Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure 1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE124N07549	PP-MLD	Mar 09, 2021	8.90%*	Mar 09, 2026	125.0	PP-MLD [ICRA]AA+(CE) (Stable)
INE124N07523	PP-MLD	Jan 28, 2021	9.50%*	Jul 28, 2024	50.90	PP-MLD [ICRA]AA+(CE) (Stable)

\* Additionally, step-up interest of 4.0% is applicable from date of issuance in case of trigger event

Source: Company

## Annexure 2: List of entities considered for consolidated analysis: Not Applicable

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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