August 30, 2022

Kogta Financial India Limited: [ICRA]A (Stable) assigned; Earlier ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	30.00	30.00	[ICRA]A (Stable); reaffirmed
LT Market Linked Debentures	50.00	50.00	PP-MLD[ICRA]A (Stable); reaffirmed
LT Market Linked Debentures	30.00	30.00	PP-MLD[ICRA]A (Stable); reaffirmed
Non-convertible Debentures	95.00	95.00	[ICRA]A (Stable); reaffirmed
Term Loan	-	500.00	[ICRA]A (Stable); assigned
Total Bank Facilities	**205.00**	**705.00**	

**Instrument details are provided in Annexure I; LT – Long term*

Rationale

The ratings factors in Kogta Financial India Limited's (KFIL) adequate capitalisation supported by a capital infusion of Rs. 400 crore in May 2022 from new and existing investors (net worth of Rs. 1,056 crore as on June 30, 2022), and its demonstrated ability to scale up the business (compound annual growth rate (CAGR) of 42.7% during FY2020-FY2022 and year-on-year (YoY) growth of 60% between Q1 FY2023 and Q1 FY2022, 46% in FY2022). The ratings also factor in KFIL's established franchise in Rajasthan, with a good track record and knowledge about the local market, and the adequately diversified borrowing profile for its scale of operations. In ICRA's view, the augmented capital base places the company in a good position in the medium term with adequate headroom for growth.

ICRA also notes that while the portfolio vulnerability has increased due to the challenging operating environment, KFIL has demonstrated the ability to recover from delinquent accounts reporting a relatively stable asset quality in the past seven years. Its 30+ dpd typically remains high due to the relatively weak credit profiles of the borrowers (largely consists of first-time users/buyers) and the nature of the business, while the 90+ days past due (dpd; net of Stage 3 ECL) has increased to 3.2% as on June 30, 2022 from 2.3% as on March 31, 2022. This increase is in line with the industry trend where typically delinquencies increase in Q1 and then roll back in the subsequent quarters. ICRA also recognises the vulnerability of the reported asset quality data due to fresh slippages during Q1 FY2023 and the relief extended to the borrowers by way of restructuring (total restructured book stood at 3.1% of assets under management (AUM) as on June 30, 2022 and 3.5% as on March 31, 2022 and 1.5% as on March 31, 2021). However, KFIL reported a recovery in its collection efficiency to the pre-Covid levels in H2 FY2021. Even though the second wave halted the trajectory in Q1 FY2022, the collection efficiency recovered again to about 99% in Q2 FY2022 after dipping to 75% in April 2021. The average monthly collection efficiency was 101% for Q4 FY2022 and 95% during Q1 FY2023. ICRA also notes that KFIL's reported gross non-performing advances (NPAs) could further increase, following the recent clarification by the Reserve Bank of India (RBI) on Income Recognition and Asset Classification (IRAC) norms, though the credit costs are likely to remain under control, given the additional provisions carried by the company.

The ratings are, however, constrained by KFIL's modest scale with moderate, albeit improving, geographical and product concentration. While the company has expanded its reach over the years to eight states/Union Territories (UTs) in North and West India, the home state Rajasthan still accounted for 36% of the portfolio as on June 30, 2022 (though lower than 49% as on March 31, 2018). Further, as KFIL primarily operates in the used vehicle financing segment, its customers are mostly first-time borrowers, and single vehicle and small business owners, who are more susceptible to economic shocks and have limited income buffers. Thus, the delinquency indicators for the company could remain volatile. However, KFIL has demonstrated the ability to recover from delinquent accounts and has reported a relatively stable asset quality in the past five years.

ICRA notes that KFIL's profitability remains modest with a return on assets (RoA) and a return on equity (RoE) of 1.3% and 4.2%, respectively for Q1 FY2023. The profitability indicators have weakened in Q1 FY2023 compared to the FY2022 levels due to the rise in operating expenses (5.5% of managed assets in Q1 FY2023 compared to 5.1% in FY2022) and increase in the credit cost to 1.6% in Q1 FY2023 from 0.8% in FY2022. However, ICRA notes that the operating expenses have increased as the company continues to be in the expansion mode and operating efficiencies are expected to improve during the year. Going forward, the company's ability to control fresh slippages will remain a key monitorable, especially given the ongoing challenging operating environment and a rising interest rate scenario.

Key rating drivers and their description

Credit strengths

Good knowledge of and track record in the local market; established franchise in Rajasthan – KFIL's leadership team primarily consists of the promoter's family members, backed by an experienced management team and supported by independent and nominee directors. Mr. Radha Krishan Kogta, the Chairperson of the company's board of directors, has over 15 years of experience in the vehicle financing segment, especially in Rajasthan. This has helped KFIL establish a retail franchise in Rajasthan and its neighbouring states/UTs and gain a good understanding of the local market. He is supported by Mr. Arun Kogta and Mr. Varun Kogta, two other members of the family, who have a combined experience of over two decades in the financial services space. KFIL is also backed by established equity investors. The promoter group, viz. the Kogta family, holds a 31.7% equity share as of June 30, 2022 in the company on a fully-diluted basis.

Adequate capitalisation for current scale of operations – KFIL received an equity infusion of Rs. 400 crore in May 2022 from a set of new and existing investors, which improved its capital buffers. This, coupled with internal accruals, aided a sizeable increase in its net worth to Rs. 1,056 crore as on June 30, 2022 from Rs. 651 crore as on March 31, 2022 (Rs. 596 crore as on March 31, 2021). The company's financial profile is characterised by adequate capitalisation with leverage (total debt/net worth) of 1.7 times as on June 30, 2022 (against 2.9 times as on March 31, 2022) which has reduced due to the capital infusion. This provides adequate cushion for absorbing asset-side shocks, if any, arising from the challenging operating environment. This also places the company in a good position for the medium term with adequate headroom for growth. However, ICRA notes that KFIL has outlined a roadmap for strong growth, which is likely to increase the leverage from the current level. In this regard, growth capital from investors is likely to be forthcoming and the gearing is expected to remain below 4 times over the medium term. An increase in the gearing level over 4 times on a sustained basis could be a credit negative for the company.

Adequately diversified borrowing profile for the current scale of operations – KFIL's borrowing profile is adequately diversified for its current scale, with sources including banks (41% of total borrowings as of June 30, 2022), non-banking financial companies (NBFCs; ~18%), and debt markets (~20%). As of June 30, 2022, the company had borrowing relationships with about 53 banks and financial institutions. It also continues to raise funds through securitisation/direct assignments, with such on-balance sheet and off-balance sheet borrowings amounting to 22% of the total borrowings, as of June 30, 2022. While the company has been able to maintain the competitive cost of funds (9.9% in Q1 FY2023) so far, the cost of funds would increase going forward, in line with the rise in the systemic interest rates. KFIL would need to continue to expand the lender base to grow as per the business plans.

Credit challenges

Exposure to relatively weak borrower profiles susceptible to economic shocks – As KFIL primarily operates in the used vehicle financing segment, its customers are mostly first-time borrowers, and single vehicle and small business owners, who are more susceptible to economic shocks and have limited income buffers. Thus, the delinquencies in the softer buckets could remain volatile for the company. Nonetheless, it is noted that KFIL has demonstrated the ability to recover from delinquent accounts and has reported a relatively stable asset quality in the past seven years. While KFIL's 30+ dpd typically remains high (9.4% as on June 30, 2022 and 9.7% as on March 31, 2022) due to the relatively weak credit profiles of the borrowers and the nature of the business, the company is able to control the roll forwards and the 90+ dpd has remained range bound. ICRA notes that the 90+ dpd (net of Stage 3 ECL) has increased to 3.2% as on June 30, 2022 from 2.3% as on March 31, 2022. This increase is in line with the industry trend where typically delinquencies increase in Q1 and then roll back in the subsequent quarters. The company's reported gross stage 3% was 4.9% as on June 30, 2022 against 3.6% as on March 31, 2022, mainly due to fresh slippages during Q1 FY2023. Further, while ICRA is aware of the vulnerability of the reported asset quality data due to the relief extended to borrowers by way of restructuring (total restructured book stood at 3.1% of assets under management (AUM) as on June 30, 2022 and 3.5% as on March 31, 2022 and 1.5% as on March 31, 2021), it is noted that the company reported average collection efficiency of 95% during Q1 FY2023 (average collection efficiency of ~95% during FY2022). Going forward, the company's ability to control fresh slippages will remain a key monitorable, especially given the ongoing challenging operating environment. However, it is noted that KFIL's capitalisation level provides a cushion for absorbing asset-side shocks, if any, arising from the ongoing challenging operating environment.

Modest scale with high, albeit improving, geographical and product concentration – Over the years, as KFIL has raised fresh capital and forayed into new geographies and products, its disbursements and hence assets under management (AUM) have grown at a fast pace with AUM touching Rs. 2,313 crore as on June 30, 2022 compared to Rs. 2,162 crore as on March 31, 2022 and Rs. 711 crore in March 2019. Further, while the company expanded its reach over the years to eight states/UTs in North and West India through a network of about 186 branches (as of June 30, 2022), the home state of Rajasthan still accounted for 36% of the portfolio as on June 30, 2022 (though lower than 49% as on March 31, 2018). The rest of the lending portfolio is in Uttar Pradesh (3%) and the neighbouring states/UTs of Gujarat (17%), Maharashtra (17%), Madhya Pradesh (MP; 11%), Delhi NCR (4%) and Punjab & Haryana (11%).

Moreover, as the vehicle loan financing segment consistently accounted for the strong growth, its share in KFIL's AUM as of June 30, 2022 remained in line with the FY2022 levels at ~78% (though lower than 89% as on March 31, 2019). Also, while the share of the used vehicle financing segment moderated to 65% of the AUM in March 2022 from 72% in March 2019, it remains the largest business area for the company. Nevertheless, ICRA notes that KFIL has gained traction in the micro, small and medium enterprise (MSME) lending space to cater to a similar category of low-and-middle-income group borrowers, and its share in the AUM has increased to about 22% (as of June 30, 2022).

Profitability profile remains modest – Given its target borrower profile, KFIL commands high lending yields, as reflected by the average yield of 18.6% in Q1 FY2023 (18.7% in FY2022). Further, while the lending yield has moderated marginally, the cost of interest-bearing funds for KFIL has increased to ~9.9% in Q1 FY2023. Consequently, the company's lending spreads and NIMs as on June 30, 2022 (8.7% and 7.0% respectively) have marginally reduced compared to the FY2022 levels (9.4% and 7.6% respectively). Considering the portfolio growth and geographic expansion, operating expenses increased to 6.2% as on June 30, 2022 from 5.6% as on March 31, 2022. Further, the incremental provisions have led to an increase in credit in costs to 1.6% as on June 30, 2022 from 0.8% as on March 31, 2022. This has led to a reduction in profitability indicators with the RoA and the RoE of 1.3% and 4.2% respectively as on June 30, 2022 compared to 2.3% and 8.4% as on March 31, 2022. Nevertheless, as the operating expenses stabilise with economies of scale, the profitability is expected to improve over the medium term, provided KFIL can maintain good control on fresh slippages.

Liquidity position: Adequate

The short-to-medium tenure of the loans extended by KFIL (average tenure of about ~3.5 years) matches well with the weighted average tenure of the term facilities (~3 years) availed by the company and reflects positively in the asset liability maturity (ALM) profile. Thus, KFIL's ALM profile, in the normal course of business, is characterised by positive cumulative mismatches across all buckets up to one year. As per the ALM profile on June 30, 2022, KFIL has debt maturities of Rs. 867 crore for the 12-month ending June 30, 2023 against which its scheduled inflows from performing advances are Rs. 606 crore for the 12-month ending June 30, 2023. KFIL has adequate on-balance sheet liquidity as on June 30, 2022 with cash and equivalents of about Rs. 685 crore (38% of total borrowings). These include investments of Rs. 314 crore in bonds and debentures. Liquidity is also supported by undrawn sanctioned bank lines of Rs. 67 crore as on June 30, 2022.

Rating sensitivities

Positive factors – The ratings could be upgraded on a sustained improvement in the profitability (RoA>3.0%) leading to a competitive position through a healthy growth in the scale while maintaining comfortable asset quality and capitalisation.

Negative factors – Pressure on the ratings could emerge on a significant increase in the leverage (gearing of more than 4 times on a sustained basis) and/or a sustained deterioration in the asset quality or weakening in the liquidity and earnings profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	-
Consolidation/Standalone	Standalone

About the company

Kogta Financial India Limited (KFIL), incorporated in 1996, is an NBFC, which primarily finances new and used commercial vehicles, multi-utility vehicles, cars, and tractors. It also provides MSME loans and loans against property (LAP). The Jaipur-based company operates through a network of about 186 branches (as of June 30, 2022) across Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Delhi NCR, Uttar Pradesh and Punjab and Haryana.

As of June 30, 2022, the company's AUM stood at ~Rs. 2,342 crore compared to ~Rs. 2,182 crore in March 2022. While the used vehicle financing segment accounted for a 65% share in the AUM as of June 30, 2022, the new vehicle financing segment's share stood at 13% with LAP/MSME loans accounting for the balance. Rajasthan accounted for 36% of the AUM as of June 30, 2022.

Post the equity infusion in May 2022, the promoter group, viz. the Kogta family, holds a 31.7% equity stake (including warrants) in the company on a fully-diluted basis, while the balance is held by Morgan Stanley Private Equity Asia (23.2%), Creador Advisors India LLP (17.2%), Multiples Private Equity (14.3%) and Javelin Investments (9%).

Key financial indicators

	FY2020	FY2021	FY2022	Q1 FY2023
	Audited	Audited	Audited	Unaudited
Total income	165	232	331	101
PAT	25	45	52	9
Net worth	549	596	651	1,056
Assets under management	1,072	1,491	2,182	2,341
Total assets	1,267	1,891	2,620	2,949
Return on average assets	2.4%	2.9%	2.3%	1.3%
Return on average equity	6.5%	7.9%	8.4%	4.2%
Gearing (times)	1.3	2.1	2.9	1.7
CRAR	58.4%	43.4%	28.5%	41.7%
90+ DPD (%)	3.0%	3.1%	2.3%	3.2%
Gross stage 3 (%)	3.2%	3.3%	3.6%	4.9%
Net stage 3 (%)	2.6%	2.4%	2.5%	3.5%
Net stage 3/Net worth (%)	4.7%	5.3%	7.2%	6.4%

Source: KFIL, ICRA Research; 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)	Aug 30, 2022	Jun 09, 2022	Apr 4, 2022	Date & Rating in FY2022				Date & Rating in FY2021	Date & Rating in FY2020		
								Dec 9, 2021	Sep 22, 2021	Jul 8, 2021	May 20, 2021	Dec 31, 2020	Nov 4, 2019	Sep 20, 2019	Aug 20, 2019
1	**Non-convertible debentures**	LT	30.00	30.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	-	-	-	-	-	-	-
2	**LT Market linked debentures**	LT	50.00	30.00	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A- (Stable)	PP-MLD [ICRA]A- (Stable)	-	-	-	-	-	-	-
3	**LT Market Linked Debentures**	LT	30.00	30.00	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A- (Stable)	PP-MLD [ICRA]A- (Stable)	PP-MLD [ICRA]A- (Stable)	-	-	-	-	-	-
4	**Non-convertible debentures**	LT	95.00	80.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-	-	-	-
5	**Term loan**	LT	500.00	0.00	[ICRA]A (Stable)	-	-	-	-	-	-	-	-	-	-
6	**Term loan**	LT	10.00	0.00	-	-	[ICRA]A(CE) (Stable); Withdrawn	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	Provisional [ICRA]A(CE) (Stable)	Provisional [ICRA]A(SO) (Stable)
7	**Non-convertible debentures**	LT	-	-	-	-	-	-	-	-	[ICRA]AA(CE) (Stable); Withdrawn	[ICRA]AA(CE) (Stable)	[ICRA]AA(CE) (Stable)	[ICRA]AA(CE) (Stable)	[ICRA]AA-(SO) (Stable)

Source: ICRA Research ICRA Research; LT - Long term; ^Outstanding as on June 30, 2022

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture (NCD)	Simple
LT Market-linked debenture (MLD)	Complex
Term loan	Simple

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

Annexure I: Instrument details (as on June 30, 2022)

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE192U07210	**NCD**	Sep-20-2021	HDFC Bank MCLR rate linked	Mar-20-2025	25.00	[ICRA]A (Stable)
INE192U07236	**NCD**	Sep-23-2021	Repo rate linked	Sep-23-2025	20.00	[ICRA]A (Stable)
INE192U07228	**NCD**	Sep-23-2021	Repo rate linked	Sep-23-2023	25.00	[ICRA]A (Stable)
INE192U07293	**NCD**	Mar-30-2022	8.71%	Sep-30-2024	10.00	[ICRA]A (Stable)
INE192U07301	**NCD**	May-09-2022	10.60%	May-09-2025	30.00	[ICRA]A (Stable)
Yet to be placed	**NCD**	NA	NA	NA	15.00	[ICRA]A (Stable)
INE192U08051	**MLD**	Sep-27-2021	BSE Sensex	Oct-31-2024	30.00	PP-MLD[ICRA]A (Stable)
INE192U07285	**MLD**	Dec-20-2021	G Sec linked	Jun-20-2024	30.00	PP-MLD[ICRA]A (Stable)
Yet to be placed	**MLD**	NA	NA	NA	20.00	PP-MLD[ICRA]A (Stable)
Yet to be placed	**Term Loan**	NA	NA	NA	500.00	[ICRA]A (Stable)

Source: KFIL, ICRA Research

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

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