March 16, 2023

# 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** | 125.00 | 125.00 | [ICRA]A (Stable); reaffirmed |
| **LT Market Linked Debentures** | 80.00 | 80.00 | PP-MLD[ICRA]A (Stable); reaffirmed |
| **Non-convertible Debentures** | - | 125.00 | [ICRA]A (Stable); assigned |
| **Term Loan** | 500.00 | 500.00 | [ICRA]A (Stable); reaffirmed |
| **Total Bank Facilities** | **705.00** | **830.00** | |

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

## Rationale

The ratings factor 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 about Rs. 1,096 crore as on December 31, 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 57% between 9M FY2023 and 9M 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 remains high, KFIL has demonstrated the ability to recover from delinquent accounts, reporting a relatively stable asset quality in the past seven years. Its 30+ days past due (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, however, with focused collection efforts and improved operating environment, the company has been able to reduce the 30+ dpd to 7.7% as on December 31, 2022 from the peak of 14.3% as on December 31, 2021 during the pandemic. At the same time, the 90+ dpd has remained range bound at 2.7% as on December 31, 2022 (2.3% as on March 31, 2022). Also, the overall restructured book for the company stood at 2.0% of assets under management (AUM) as on December 31, 2022, reduced from 3.5% as on March 31, 2022. In line with the industry trend, KFIL's reported gross non-performing advances (NPAs) increased to 4.2% as on December 31, 2022 compared to 3.6% as on March 31, 2022, following the adoption of a recent clarification by the Reserve Bank of India (RBI) on Income Recognition and Asset Classification (IRAC) norms.

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 35% of the portfolio as on December 31, 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 2.1% and 7.1%, respectively for 9M FY2023. The profitability indicators marginally weakened in 9M FY2023 compared to the FY2022 levels due to the rise in operating expenses (6.0% of average total assets in 9M FY2023 compared to 5.6% in FY2022) and marginal increase in the credit cost to 1.0% in 9M FY2023 from 0.8% in FY2022. However, ICRA notes that the operating expenses increased as the company continues to be in the expansion mode and operating efficiencies are expected to improve going forward, thus leading to improvement in profitability indicators. Going forward, the company's ability to continue to grow as per business plans while maintaining control over fresh slippages will remain a key monitorable.

## 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 December 31, 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. 1,095.5 crore as on December 31, 2022 from Rs. 651.0 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 2.1 times as on December 31, 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, thus placing 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 (53% of total borrowings as on December 31, 2022), non-banking financial companies (NBFCs; 12%), and debt markets (18%). As on December 31, 2022, the company had borrowing relationships with about 50+ banks and financial institutions and continues to raise funds through securitisation/direct assignments, with such borrowings amounting to 18% of the total borrowings, as of December 31, 2022. While the company has been able to maintain the competitive cost of funds (8.8% in 9M FY2023) so far, the cost of funds could increase going forward, as the full impact of rise in systemic rates starts reflecting in the balance sheet. However, this could partly get offset with some of the earlier high-cost debt getting replaced by relatively lower priced bank funding. Nevertheless, 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 has improved to 7.7% as on December 31, 2022 from 9.7% as on March 31, 2022 (due to change in collection strategy to focus on collections in 0-60 DPD bucket), nonetheless it remains high due to the inherently weak credit profiles of the borrowers and the nature of the business. However, the company is able to control the roll forwards and the 90+ dpd has remained range bound with 90+ dpd of 2.7%

as on December 31, 2022 (2.3% as on March 31, 2022). The company's reported gross non-performing assets (NPA) was 4.2% as on December 31, 2022 against 3.6% as on March 31, 2022, mainly adoption of RBI's IRAC norms for NPA recognition along with usual slippages. 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, the overall quantum is small at 2.0% of assets under management (AUM) as on December 31, 2022. Going forward, the company's ability to control fresh slippages while growing as per business plans will remain a key monitorable. However, it is noted that KFIL's capitalisation level provides a cushion for absorbing asset-side shocks, if any.

**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. 2,971 crore as on December 31, 2022 compared to Rs. 2,183 crore as on March 31, 2022. Further, while the company expanded its reach over the years to eight states/UTs in North and West India through a network of about 218 branches (as of December 31, 2022), the home state of Rajasthan still accounted for 35% of the portfolio as on December 31, 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 (18%), Madhya Pradesh (MP; 12%), Delhi NCR (4%) and Punjab & Haryana (12%).

Moreover, as the vehicle loan financing segment consistently accounted for the strong growth, its share in KFIL's AUM as of December 31, 2022 remained in line with the FY2022 levels at ~79% (though lower than 89% as on March 31, 2019). Also, while the share of the used vehicle financing segment moderated to 67% of the AUM in December 2022 from 72% in March 2019, it has remained 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 21% (as of December 31, 2022).

**Profitability profile remains modest** – Given its target borrower profile, KFIL commands high lending yields, as reflected by the average yield of 18.1% in 9M FY2023 (18.7% in FY2022). The cost of interest-bearing funds for KFIL has also reduced to 8.8% in 9M FY2023 from 9.3% in FY2022 because of base effect and repayment for high-cost borrowings from larger Non-Banking Finance Companies (NBFCs) and Small Finance Banks (SFBs) during the period (and replaced these by lower cost bank borrowings). The lending spread in 9M FY2023 remained in line with FY2022 level at 9.3% (9.4% in FY2022). This NIMs have improved to 8.1% in 9M FY2023 7.6% in FY2022 because of reduction in gearing on account of capital infusion in May 2022. Considering the portfolio growth and geographic expansion, operating expenses increased to 6.0% in 9M FY2023 from 5.6% in FY2022. Further, the incremental provisions have led to a marginal increase in credit costs to 1.0% in 9M FY2023 from 0.8% in FY2022. This has led to a marginal reduction in profitability indicators with the RoA and the RoE of 2.1% and 7.1% respectively in 9M FY2023 compared to 2.3% and 8.4% in FY2022. 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 4 years) matches well with the weighted average tenure of the term facilities (~3.4 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 December 31, 2022, KFIL has debt maturities of Rs. 1,013 crore for the 12-month ending December 31, 2023 against which its scheduled inflows from performing advances are Rs. 784 crore for the 12-month ending December 31, 2023. KFIL has adequate on-balance sheet liquidity as on December 31, 2022 with cash and equivalents of about Rs. 436 crore (19% of total borrowings as on December 31, 2022). Cash and equivalents include investments of Rs. 174 crore in bonds and debentures. Liquidity is also supported by undrawn sanctioned bank lines of Rs. 80 crore as on December 31, 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 218 branches (as of December 31, 2022) across Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Delhi NCR, Uttar Pradesh and Punjab and Haryana.

As on December 31, 2022, the company's AUM stood at Rs. 2,971 crore compared to Rs. 2,183 crore in March 2022. While the used vehicle financing segment accounted for a 67% share in the AUM as on December 31, 2022, the new vehicle financing segment's share stood at 12% with LAP/MSME loans accounting for the remaining 21%. Rajasthan accounted for 35% of the AUM as of December 31, 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%).

The company reported a profit after tax (PAT) of Rs. 46.8 crore in 9M FY2023 on gross asset base of Rs. 3,442 crore as on December 31, 2022 compared to PAT of Rs. 52.1 crore in FY2022 on a gross asset base of Rs. 2,620 crore as on March 31, 2022. The company's net worth stood at Rs. 1,095.5 crore as on December 31, 2022 based on provisional financials (Rs. 651.0 crore as on March 31, 2022). The gross NPA and net NPA for the company stood at 4.2% and 2.7% respectively as on December 31, 2022 compared to 3.6% and 2.5% respectively as on March 31, 2022.

### Key financial indicators

| | FY2020 | FY2021 | FY2022 | 9M FY2023 |
|---|---|---|---|---|
| | Audited | Audited | Audited | Unaudited |
| **Total income** | 165 | 232 | 331 | 339 |
| **PAT** | 25 | 45 | 52 | 47 |
| **Net worth** | 549 | 596 | 651 | 1,096 |
| **Assets under management** | 1,072 | 1,491 | 2,182 | 2,971 |
| **Total assets** | 1,267 | 1,891 | 2,620 | 3,442 |
| **Return on average assets** | 2.4% | 2.9% | 2.3% | 2.1% |
| **Return on average equity** | 6.5% | 7.9% | 8.4% | 7.1% |
| **Gearing (times)** | 1.3 | 2.1 | 2.9 | 2.1 |
| **CRAR** | 58.4% | 43.4% | 28.5% | 37.3% |
| **90+ DPD (%)** | 3.0% | 3.1% | 2.3% | 2.7% |
| **Gross NPA (%)** | 3.2% | 3.3% | 3.6% | 4.2% |
| **Net NPA (%)** | 2.6% | 2.4% | 2.5% | 2.7% |
| **Net NPA/Net worth (%)** | 4.7% | 5.3% | 7.2% | 6.4% |

*Source: KFIL, ICRA Research; Amount in Rs. crore; All figures and ratios as per ICRA calculations*

### 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 in FY2022 | | | | Date & Rating in FY2021 | Date & Rating in FY2020 | |
| | | | | | Mar 16, 2023 | Aug 30, 2022 | Jun 09, 2022 | Apr 4, 2022 | Dec 9, 2021 | Sep 22, 2021 | Jul 8, 2021 | May 20, 2021 | Dec 31, 2020 | Nov 4, 2019 | Aug 20, 2019 |
| 1 | Non-convertible debentures | LT | 125.00 | 110.00 | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | - | - | - | - | - |
| 2 | LT Market Linked Debentures | LT | 80.00 | 60.00 | 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) | PP-MLD [ICRA]A- (Stable) | - | - | - | - | - |
| 3 | Non-convertible debentures | LT | 125.00 | 0.00 | [ICRA]A (Stable) | - | - | - | - | - | - | - | - | - | - |
| 4 | Term loan | LT | 500.00 | 0.00 | [ICRA]A (Stable) | [ICRA]A (Stable) | - | - | - | - | - | - | - | - | - |
| 5 | Term loan | LT | - | - | - | - | - | [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(SO) (Stable) |
| 6 | Non-convertible debentures | LT | - | - | - | - | - | - | - | - | - | [ICRA]AA(CE) (Stable); Withdrawn | [ICRA]AA(CE) (Stable) | [ICRA]AA(CE) (Stable) | [ICRA]AA-(SO) (Stable) |

*Source: ICRA Research ICRA Research; LT - Long term; ^Outstanding as on March 10, 2023*

## 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: Click Here

## Annexure I: Instrument details (as on March 10, 2023)

| 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) |
| **NA** | **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) |
| **NA** | **MLD*** | NA | NA | NA | 20.00 | PP-MLD[ICRA]A (Stable) |
| **NA** | **NCD*** | NA | NA | NA | 125.00 | [ICRA]A (Stable) |
| **NA** | **Term Loan*** | NA | NA | NA | 500.00 | [ICRA]A (Stable) |

*Source: KFIL, ICRA Research*
*Note: * yet to be placed*

*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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## About ICRA Limited:

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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## ICRA Limited

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