

November 09, 2023

Kotak Mahindra Prime Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper (IPO financing) programme [^]	6,500.00	6,500.00	[ICRA]A1+; reaffirmed
Commercial paper programme	9,000.00	9,000.00	[ICRA]A1+; reaffirmed
Non-convertible debentures	5,175.90	5,175.90	[ICRA]AAA(Stable); reaffirmed
Subordinated debt programme	400.30	400.30	[ICRA]AAA(Stable); reaffirmed
Subordinated debt programme	40.00	-	[ICRA]AAA(Stable); reaffirmed and withdrawn
Nifty linked debentures	41.25	41.25	PP-MLD[ICRA]AAA(Stable); reaffirmed
Long-term bank lines – Unallocated	6,391.00	6,391.00	[ICRA]AAA(Stable); reaffirmed
Total	27,548.45	27,508.45	

*Instrument details are provided in Annexure I

[^]Assigned for application on proprietary account

Rationale

The ratings are supported by Kotak Mahindra Prime Limited (KMPL) being the subsidiary of Kotak Mahindra Bank Limited (KMBL¹). The ratings consider the shared brand name and supervision by a strong board. The ratings also factor in the company's demonstrated ability of managing the auto finance business for more than 25 years through various economic cycles, its healthy earnings profile and strong capitalisation. The company's capitalisation remains strong with a gearing of 2.2 times as on March 31, 2023. Given the healthy internal accruals, KMPL does not have any capital infusion requirements in the medium term, though ICRA expects capital support from KMBL, if required. The profitability remains healthy with a return on average total assets (RoTA; Profit After Tax (PAT)/Average Total Assets (ATA)) of 3.0% in FY2023 (3.4% in FY2022).

The company's asset quality had been impacted by the Covid-19 pandemic and the resultant slowdown in economic activity. However, the asset quality improved with gross stage 3 and net stage 3 of 2.4% and 1.0%, respectively, as on June 30, 2023 (3.1% and 1.6%, respectively, as on March 31, 2022). Further, the company's strong credit assessment process and its track record of managing cycles in the auto financing industry provide comfort. The corporate portfolio (9% of the Assets Under Management (AUM) as on June 30, 2023) is, however, exposed to the inherent risks associated with real estate loans and lumpiness. This portfolio has gradually declined over the past few years. KMPL's strong credit underwriting process and adequate structural mechanisms, in terms of security cover and exclusive charge on most of the underlying assets and escrow accounts to route project cash flows, provide comfort. While the company has been diversifying its AUM in new retail products such as loan against property (LAP), passenger vehicle finance (including dealer financing) continued to account for 74% of the AUM as on June 30, 2023. Moreover, as the LAP portfolio seasons, the asset quality of this segment will also be monitorable.

The Stable outlook reflects ICRA's expectations of continued benefit from the company's parentage, including capital support if required, financial flexibility as it is a part of the Kotak Group, and operational synergies with the Group.

ICRA has reaffirmed and withdrawn the rating assigned to KMPL's Rs. 40.00-crore subordinated debt programme, as these instruments have been redeemed and there is no amount outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

¹ Rated [ICRA]AAA (Stable) for infrastructure bond programme

Key rating drivers and their description

Credit strengths

Strong parentage and capitalisation – KMBL holds a 51% stake in KMPL, while the balance is held by Kotak Securities Limited (KSL; rated [ICRA]AAA(Stable)/[ICRA]A1+), which, in turn, is a 100% subsidiary of KMBL. Consequently, KMPL enjoys strong financial and operational support from the Kotak Group, which in the past, has comprised access to capital, management and systems and supervision by a strong board. KMPL also benefits from its shared brand name with the Kotak Group.

With a net worth of Rs. 10,690 crore, KMPL is strongly capitalised and its capital adequacy ratio stood at 26.9% (Tier I of 26.2%) as on June 30, 2023. The capitalisation is supported by healthy profit accretion and the gearing stood at 2.2 times as on March 31, 2023, compared to 2.1 times as on March 31, 2022. KMPL's AUM grew by 14% on a YoY basis to Rs. 29,536 crore as on March 31, 2023 and further to Rs. 30,374 crore as on June 30, 2023. Given the company has been gradually scaling up its LAP portfolio, which has relatively longer amortisation tenor, the growth in loan portfolio is expected to be higher. However, given the healthy profitability, KMPL does not have any capital infusion requirements in the medium term, though capital support is expected from the parent, as and when required. Further, by virtue of being a part of the Kotak Group, KMPL enjoys considerable financial flexibility in raising long-term funds at competitive rates. It continues to have a strong liquidity profile with sufficient unutilised bank lines and no material asset liability mismatches.

Healthy profitability – With growth in the loan portfolio, the net interest income increased by 13% to Rs. 1,629 crore in FY2023 and the net interest margins (NIM) largely remained stable, as the increase in the cost of borrowings passed on to the customers. However, as the company is expanding its distribution net-work, the operating expense increased to 1.8% of ATA in FY2023 from 1.5% in FY2022. The credit costs remained low and reversal of the excess credit provisions with the improvement in the asset quality continued in FY2022 and FY2023. The extent of reversal was, however, lower in FY2023 compared to FY2022. As a result, the return on average total assets declined to 3.0% in FY2023 from 3.4% in FY2022. KMPL reported a profit after tax (PAT) of Rs. 948 crore in FY2023 against Rs. 975 crore in FY2022. KMPL's gross stage 3 assets reduced to 2.4% as on June 30, 2023, from 3.1% as on March 31, 2022. The collection efficiency, which dropped in FY2021 due to the pandemic-related lockdown, recovered to more than 100% in FY2022 and FY2023, resulting in a decline in the overall delinquencies.

The company's PAT/ATA is likely to be lower in FY2024 with the normalisation of credit costs. ICRA, however, expects that KMPL would continue to report healthy profitability. For Q1 FY2024, KMPL reported PAT of Rs. 216 crore compared to Rs. 210 in Q1 FY2023.

Credit challenges

Loan book largely comprising passenger vehicle finance - With passenger vehicle loans and dealer financing forming a significant part (74% as on June 30, 2023) of its portfolio, the company's business is dependent on retail car sales volumes. ICRA takes comfort from KMPL's long and successful track record and strategic arrangements with various car manufacturers in India as their preferred financier. The company ventured into the retail LAP segment (7% of the AUM as on June 30, 2023), which is expected to support its loan book diversification, though asset quality of the same will be monitorable as the loan book seasons. Further, within vehicle loans, the company has presence in two-wheeler financing (~7% of the AUM as on June 30, 2023), while the corporate loans declined to 9% as on June 30, 2023 (22% as on March 31, 2022).

Liquidity position: Strong

As on September 30, 2023, the company had unencumbered cash and cash equivalents of Rs. 2,522 crore and sanctioned and undrawn bank lines of Rs. 2,946 crore. This is adequate to meet the scheduled debt obligations for over four months. KMPL did not have any negative cumulative mismatch in the Statement of Structural Liquidity (SLS) as on August 31, 2023. KMPL enjoys considerable financial flexibility for being a part of the Kotak Group.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A material change in the expected level of support from the parent or a material deterioration in the credit risk profile of the parent could warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies Implicit Parent or Group Support Policy on Withdrawal of Credit Ratings
Parent/Group support	Parent: Kotak Mahindra Bank Limited KMPL is the ultimate holding company of KMPL, with a direct and indirect stake of 100%. The ratings factor in the high likelihood of support from KMBL, given the shared brand name and representation on the board.
Consolidation/Standalone	Standalone

About the company

Kotak Mahindra Prime Limited was established as Kotak Mahindra Primus Limited in 1996 as a 60:40 joint venture between Kotak Mahindra Bank Limited (KMBL) and Ford Credit International (FCI). FCI exited the venture in 2005, and the company was subsequently renamed Kotak Mahindra Prime Limited. At present, KMBL has a 51% stake in KMPL, and the balance is held by Kotak Securities Limited, which is a wholly-owned step-down subsidiary of KMBL.

KMPL is one of the leading nationwide car finance companies and has strategic arrangements with various car manufacturers in India as their preferred financier. In addition to financing new and used cars, KMPL offers two-wheeler financing, inventory funding and infrastructure funding to car dealers. It also provides corporate advances to the customers of the Kotak group. It has entered the retail LAP segment in FY2022. The company has a network of 138 branches across the country, supported by direct market associates, brokers and agencies for distribution.

Key financial indicators (audited)

KMPL	FY2022	FY2023	Q1FY2023 [^]	Q1 FY2024 [^]
Total income	2,626	2,994	678	867
Profit / (loss) after tax)	975	948	210	216
Net worth	9,247	10,239	9,417	10,690
Loan Book (Gross)	23,681	27,268	23,144	28,974
AUM	25,954	29,536	25,418	30,374
Total assets	30,127	34,108	29,216	35,499
Return on assets	3.4%	3.0%	2.8%	2.5%
Return on net worth	11.2%	9.7%	9.0%	8.2%
Gross gearing (times)	2.1	2.2	2.0	2.2
Gross stage 3	3.1%	2.4%	3.1%	2.4%
Net stage 3	1.6%	1.0%	1.3%	1.0%
Solvency (Net stage 3/Net worth)	3.9%	2.8%	3.0%	2.7%

KMPL	FY2022	FY2023	Q1FY2023^	Q1 FY2024^
CRAR	30.9%	28.5%	31.2%	26.9%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	
					Nov 09, 2023	Jun 29, 2023	Oct 25, 2022	Feb 15, 2022	Aug 13, 2021	Dec 04, 2020	
1	Commercial Paper Programme (IPO financing)	Short Term	6,500.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	-	
2	Commercial Paper Programme	Short Term	9,000.00	4,755.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	
3	Subordinated Debt Programme	Long Term	400.30	100.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	
4	Subordinated Debt Programme	Long Term	40.00	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	-	-	-	-	-	
5	Subordinated Debt Programme	Long Term	-	-	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	
6	Non-convertible Debentures	Long Term	5,175.90	2,675.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	
7	Non-convertible Debentures	Long Term	-	-	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	
8	Nifty Linked Debentures	Long Term	41.25	-	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA] AAA (Stable)	PP-MLD [ICRA] AAA (Stable)	PP-MLD [ICRA] AAA (Stable)	
9	Long-term bank lines – Unallocated	Long Term	6,391.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper Programme (IPO financing)	Very Simple
Commercial Paper Programme	Very Simple
Subordinated Debt Programme	Very Simple
Non-convertible Debentures	Very Simple
Nifty Linked Debentures [^]	Moderately Complex
Long-term bank lines – Unallocated	Not Applicable

[^]The complexity indicator mentioned is subject to change when the terms of the instrument are eventually finalised.

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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE916D142P0	Commercial Paper Programme	Aug 04, 2023	7.19	Nov 02, 2023	150.00	[ICRA]A1+
INE916D142F1	Commercial Paper Programme	May 19, 2023	7.52	Nov 20, 2023	75.00	[ICRA]A1+
INE916D141W8	Commercial Paper Programme	Jan 02, 2023	7.85	Jan 02, 2024	255.00	[ICRA]A1+
INE916D141X6	Commercial Paper Programme	Jan 05, 2023	7.85	Jan 03, 2024	150.00	[ICRA]A1+
INE916D141Y4	Commercial Paper Programme	Jan 05, 2023	7.85	Jan 05, 2024	25.00	[ICRA]A1+
INE916D141Z1	Commercial Paper Programme	Jan 24, 2023	7.87	Jan 23, 2024	300.00	[ICRA]A1+
INE916D142A2	Commercial Paper Programme	Feb 02, 2023	7.90	Jan 29, 2024	105.00	[ICRA]A1+
INE916D142B0	Commercial Paper Programme	Feb 17, 2023	7.95	Feb 05, 2024	400.00	[ICRA]A1+
INE916D142D6	Commercial Paper Programme	Apr 24, 2023	7.69	Apr 05, 2024	450.00	[ICRA]A1+
INE916D142J3	Commercial Paper Programme	Jun 14, 2023	7.60	Apr 16, 2024	300.00	[ICRA]A1+
INE916D142L9	Commercial Paper Programme	Jul 12, 2023	7.62	May 07, 2024	400.00	[ICRA]A1+
INE916D142N5	Commercial Paper Programme	Jul 28, 2023	7.60	May 21, 2024	385.00	[ICRA]A1+
INE916D142O3	Commercial Paper Programme	Aug 03, 2023	7.60	Jun 05, 2024	450.00	[ICRA]A1+
INE916D142R6	Commercial Paper Programme	Aug 22, 2023	7.80	Jul 22, 2024	400.00	[ICRA]A1+
INE916D142Q8	Commercial Paper Programme	Aug 07, 2023	7.60	Aug 05, 2024	560.00	[ICRA]A1+
INE916D142S4	Commercial Paper Programme	Aug 22, 2023	7.80	Aug 21, 2024	350.00	[ICRA]A1+
Not Yet Placed	Commercial Paper Programme	-	-	-	4245.00	[ICRA]A1+
INE916DA7RW2	Non-convertible Debentures	Oct 25, 2022	7.92	Feb 20, 2026	370.00	[ICRA]AAA(Stable)
INE916DA7SH1	Non-convertible Debentures	Apr 17, 2023	7.97	May 22, 2026	420.00	[ICRA]AAA(Stable)
INE916DA7SF5	Non-convertible Debentures	Mar 14, 2023	8.26	Jun 22, 2026	350.00	[ICRA]AAA(Stable)
INE916DA7S19	Non-convertible Debentures	May 22, 2023	7.84	Jul 10, 2026	450.00	[ICRA]AAA(Stable)
INE916DA7RS0	Non-convertible Debentures	Aug 26, 2022	7.48	Aug 20, 2026	175.00	[ICRA]AAA(Stable)
INE916DA7RP6	Non-convertible Debentures	Jul 19, 2022	7.79	Jul 19, 2027	200.00	[ICRA]AAA(Stable)
INE916DA7RX0	Non-convertible Debentures	Nov 04, 2022	7.99	Sep 17, 2027	200.00	[ICRA]AAA(Stable)
INE916DA7SE8	Non-convertible Debentures	Feb 28, 2023	8.05	Feb 28, 2028	185.00	[ICRA]AAA(Stable)
INE916DA7SJ7	Non-convertible Debentures	Jul 13, 2023	7.83	Jul 13, 2028	325.00	[ICRA]AAA(Stable)
Unutilised	Non-convertible Debentures	-	-	-	2500.90	[ICRA]AAA(Stable)
INE916D08DX4	Subordinated Debt Programme	Dec 07, 2017	8.25	Dec 07, 2027	100.00	[ICRA]AAA(Stable)
INE916D08DT2	Subordinated Debt Programme	Dec 21, 2012	10.50	Jun 22, 2023	40.00	[ICRA]AAA(Stable); reaffirmed and withdrawn
Unutilised	Subordinated Debt Programme	-	-	-	300.30	[ICRA]AAA(Stable)
Unutilised	Nifty Linked Debentures	-	-	-	41.25	PP-MLD [ICRA]AAA(Stable)
Unutilised	Long-term bank lines – Unallocated	-	-	-	6,391.00	[ICRA]AAA(Stable)
Not Yet Placed	Commercial Paper Programme (IPO financing)	NA	NA	7-30 days	6,500.00	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	KMPL Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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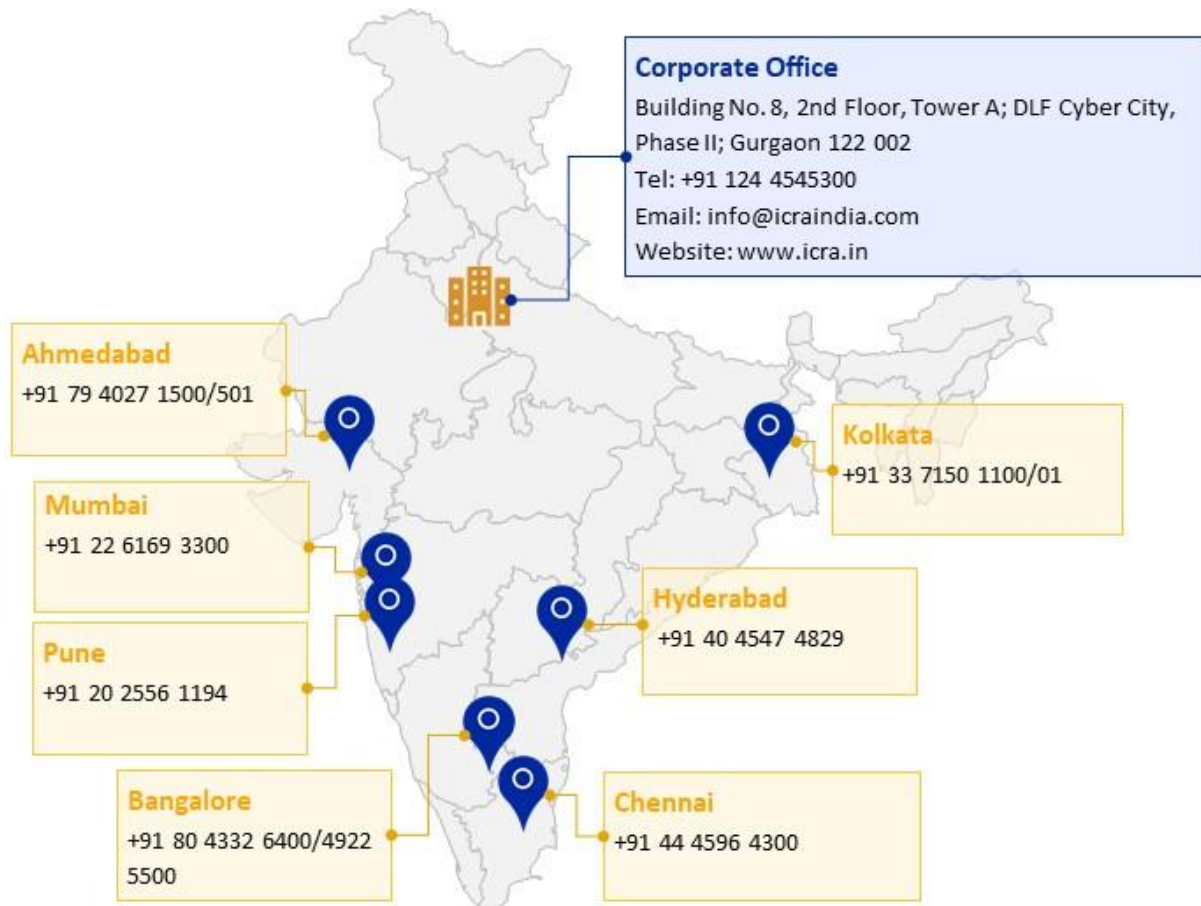
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