

November 23, 2023

Infina Finance Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	3,000.00	3,000.00	[ICRA]A1+; reaffirmed
Commercial paper programme (IPO financing)	2,000.00	5,000.00	[ICRA]A1+; assigned/reaffirmed
Total	5,000.00	8,000.00	

*Instrument details are provided in Annexure I

Rationale

The rating factors in the financial flexibility 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 Limited {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 considers the company's strong capitalisation.

Infina's earnings profile is, however, exposed to the volatility in the capital markets as loan against securities (LAS) accounts for 89% of its loan book and demand for LAS could be impacted by market cycles. The company's profitability was also impacted in FY2023 by the regulatory restrictions on the initial public offering (IPO) financing business. Infina undertakes proprietary positions in the equity market, which adds volatility to its profitability. Given the performance of the long-short strategy in FY2023 and the uncertainty in capital markets, the long-short book was wound down in March 2023. Further, the loan book is concentrated, given the single loan product and the moderate scale of the loan book, while the liabilities are also concentrated towards commercial paper (CP) funding. However, Infina's comfortable asset quality and history of negligible credit losses provide comfort.

While Infina's gearing remains modest, it typically increases for ~1-2 weeks when the company utilises its CP for proprietary IPO applications. The company maintains the regulatory capital requirements on a continuous basis, including the borrowings for the proprietary IPO book.

Key rating drivers and their description

Credit strengths

Support from Kotak Mahindra Bank Group – KMCC (wholly-owned subsidiary of KMBL) held a 49.99% stake in Infina, as on September 30, 2023, while closely-held entities of the Kotak family held the balance. As it is an associate of the Kotak Mahindra Bank Group, Infina enjoys considerable financial flexibility in raising funds at competitive rates. ICRA expects support from the promoters to be forthcoming if required. Further, the company's board has senior executives from the Kotak Mahindra Bank Group. Infina's senior management has been with other Kotak Group entities before joining the company.

Strong capitalisation – The company's capitalisation remains strong with a net worth of Rs. 2,453 crore as on September 30, 2023 and a modest gearing of 0.60 times. The Tier I capital adequacy ratio stood at 53.1% as on September 30, 2023. The strong capitalisation has been supported by internal accruals and the moderate scale of operations. With expectations of an increase in the scale of the loan book, ICRA expects Infina's borrowings and gearing to increase in the near to medium term. However, the existing capitalisation is likely to support the growth in the medium term.

Credit challenges

Volatility in earnings profile – Proprietary trading (both realised and unrealised gains), income from long-term investments and interest income from LAS have been Infina's major sources of income (LAS accounted for 89% of the overall loan book as of September 30, 2023). As a result, the revenue profile remains significantly exposed to the inherent volatility in the securities market. The company reported a profit after tax (PAT) of Rs. 106 crore in FY2023 compared to Rs. 270 crore in FY2022. With the volatility in equity markets, the net gains on the investment book declined to Rs. 17 crore in FY2023 from Rs. 232 crore in FY2022. Further, net interest income was lower in FY2023 due to the compression in the spreads for the LAS book with the increased cost of short-term funding through CPs and the regulatory restrictions on the IPO financing business. This was partly offset by lower operating expenses. The company wound down its proprietary trading book in March 2023, given its outlook on the equity market. Hence, profitability would be driven by the interest spreads and the scale of the LAS portfolio in the near term. Infina's profitability improved in H1 FY2024 with a PAT of Rs. 146 crore (PAT/ATA of 8.0%) against Rs. 51 crore in H1 FY2023 (PAT/ATA of 3.3%) supported by the higher gain on investments.

Concentration in loan book and liabilities – The loan book grew to Rs. 3,262 crore as on September 30, 2023 from Rs. 2,776 crore as on March 31, 2023. While the company has been diversifying into the retail segment, the loan book largely comprises larger ticket size promoter and high-net-worth individual (HNI) LAS. It remains concentrated with the top 20 exposures forming a sizeable portion of the portfolio (81% of the portfolio and 108% of the net worth as on September 30, 2023). Given the LAS-focused portfolio, the size of the loan book and the value of the collateral remain exposed to the inherent volatility in the capital markets. ICRA takes comfort from the lending against liquid securities and the adequate security cover, which mitigates the credit risk. Infina's asset quality remains comfortable with no history of credit losses.

The liabilities remain concentrated with the entire borrowings from CPs. The dependence on CPs exposes the company to market volatility, which could constrain funding availability. ICRA, however, notes Infina's policy of maintaining liquidity on the balance sheet for meeting repayments due in the next 45 days. Also, the majority of the loan book has put/call options at 3 months/6 months/1 year, which can be exercised for liquidity management if required.

Liquidity position: Strong

As on October 31, 2023, Infina had a free cash and bank balance and liquid investments of Rs. 551 crore against the total debt (CP) outstanding of Rs. 1,820 crore maturing between November 2023 and April 2024. The liquidity is further supported by the call/put options in the loan book at 3 months/6 months/1 year, which can be exercised for liquidity management. This led to positive cumulative gaps across all the buckets as per the Statement of Structural Liquidity as on October 31, 2023. Given the reliance on CPs, the company's ability to roll over its borrowings will remain a key rating monitorable. ICRA, however, notes that Infina has the ability to raise funds at competitive rates as it is an associate of the Kotak Mahindra Bank Group.

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	Non-banking Finance Companies Rating Approach – Implicit Parent or Group Support
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. Further, capital support from the promoters is expected to be forthcoming if required.
Consolidation/Standalone	Standalone

About the company

Infina Finance Private Limited is a non-deposit taking non-banking financial company (NBFC) involved in lending against securities. It also has private equity investments though the scale remains small in relation to the total assets. The company's net worth was built in 2006 when certain strategic investments were divested, with Infina deriving huge capital gains. Infina 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.

Key financial indicators (audited)

	FY2021	FY2022	FY2023	H1 FY2024
Total income	356	536	228	251
Profit/(loss) after tax	226	270	106	146
Net worth	1,931	2,202	2,307	2,453
Loan book	1,364	2,239	2,776	3,262
Total assets	2,281	3,163	3,326	3,961
Return on assets	11.3%	9.9%	3.3%	8.0%
Return on net worth	12.4%	13.1%	4.7%	12.3%
Gross gearing (times)	0.16	0.42	0.43	0.60
Gross stage 3	0.4%	0.0%	0.0%	0.0%
Net stage 3	0.2%	0.0%	0.0%	0.0%
Solvency (Net stage 3/Net worth)	0.2%	0.0%	0.0%	0.0%
CRAR	92.2%	71.2%	66.9%	53.1%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; H1 FY2024 financials are provisional

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 as on Oct 31, 2023 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021			
				Nov 23, 2023	Apr 26, 2023 Oct 06, 2023	Apr 06, 2022	Jul 19, 2021	Apr 16, 2021	Sep 24, 2020	Sep 10, 2020	Jul 31, 2020	
1 Commercial paper programme (IPO financing)	ST	5,000.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+; withdrawn
2 Commercial paper programme	ST	3,000.00	2,465.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper programme (IPO financing)	Very Simple
Commercial paper programme	Very 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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE879F14GK7	Commercial paper programme	Dec 01, 2022	8.43%	Nov 30, 2023	100.00	[ICRA]A1+
INE879F14GK7	Commercial paper programme	Dec 01, 2022	8.43%	Nov 30, 2023	75.00	[ICRA]A1+
INE879F14GX0	Commercial paper programme	Feb 27, 2023	8.60%	Feb 27, 2024	75.00	[ICRA]A1+
INE879F14GX0	Commercial paper programme	Feb 27, 2023	8.60%	Feb 27, 2024	75.00	[ICRA]A1+
INE879F14HD0	Commercial paper programme	May 03, 2023	7.85%	Mar 19, 2024	75.00	[ICRA]A1+
INE879F14HF5	Commercial paper programme	Jun 21, 2023	7.70%	Jan 24, 2024	140.00	[ICRA]A1+
INE879F14HH1	Commercial paper programme	Jun 28, 2023	7.80%	Dec 28, 2023	100.00	[ICRA]A1+
INE879F14HI9	Commercial paper programme	Jun 28, 2023	7.93%	Jun 12, 2024	215.00	[ICRA]A1+
INE879F14HL3	Commercial paper programme	Jun 30, 2023	7.93%	Jun 27, 2024	30.00	[ICRA]A1+
INE879F14HS8	Commercial paper programme	Aug 03, 2023	7.37%	Nov 02, 2023	100.00	[ICRA]A1+
INE879F14HT6	Commercial paper programme	Aug 04, 2023	7.72%	Feb 06, 2024	75.00	[ICRA]A1+
INE879F14HU4	Commercial paper programme	Aug 08, 2023	7.72%	Mar 07, 2024	100.00	[ICRA]A1+
INE879F14HY6	Commercial paper programme	Sep 13, 2023	7.50%	Dec 13, 2023	80.00	[ICRA]A1+
INE879F14IA4	Commercial paper programme	Sep 15, 2023	7.60%	Dec 15, 2023	100.00	[ICRA]A1+
INE879F14IB2	Commercial paper programme	Oct 12, 2023	7.88%	Jan 11, 2024	100.00	[ICRA]A1+
INE879F14IC0	Commercial paper programme	Oct 16, 2023	8.47%	Oct 15, 2024	150.00	[ICRA]A1+
INE879F14ID8	Commercial paper programme	Oct 23, 2023	8.55%	Oct 22, 2024	100.00	[ICRA]A1+
INE879F14IE6	Commercial paper programme	Oct 26, 2023	7.87%	Dec 08, 2023	250.00	[ICRA]A1+
INE879F14IE6	Commercial paper programme	Oct 26, 2023	7.87%	Dec 08, 2023	150.00	[ICRA]A1+
INE879F14IF3	Commercial paper programme	Oct 30, 2023	8.65%	Aug 22, 2024	150.00	[ICRA]A1+
INE879F14IG1	Commercial paper programme	Oct 30, 2023	7.95%	Jan 29, 2024	150.00	[ICRA]A1+
INE879F14IG1	Commercial paper programme	Oct 30, 2023	7.95%	Jan 29, 2024	75.00	[ICRA]A1+
Not yet placed	Commercial paper programme	NA	NA	NA	535.00	[ICRA]A1+
Not yet placed	Commercial paper (IPO financing) programme	NA	NA	NA	5,000.00	[ICRA]A1+

Source: Company; Data as on October 31, 2023

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

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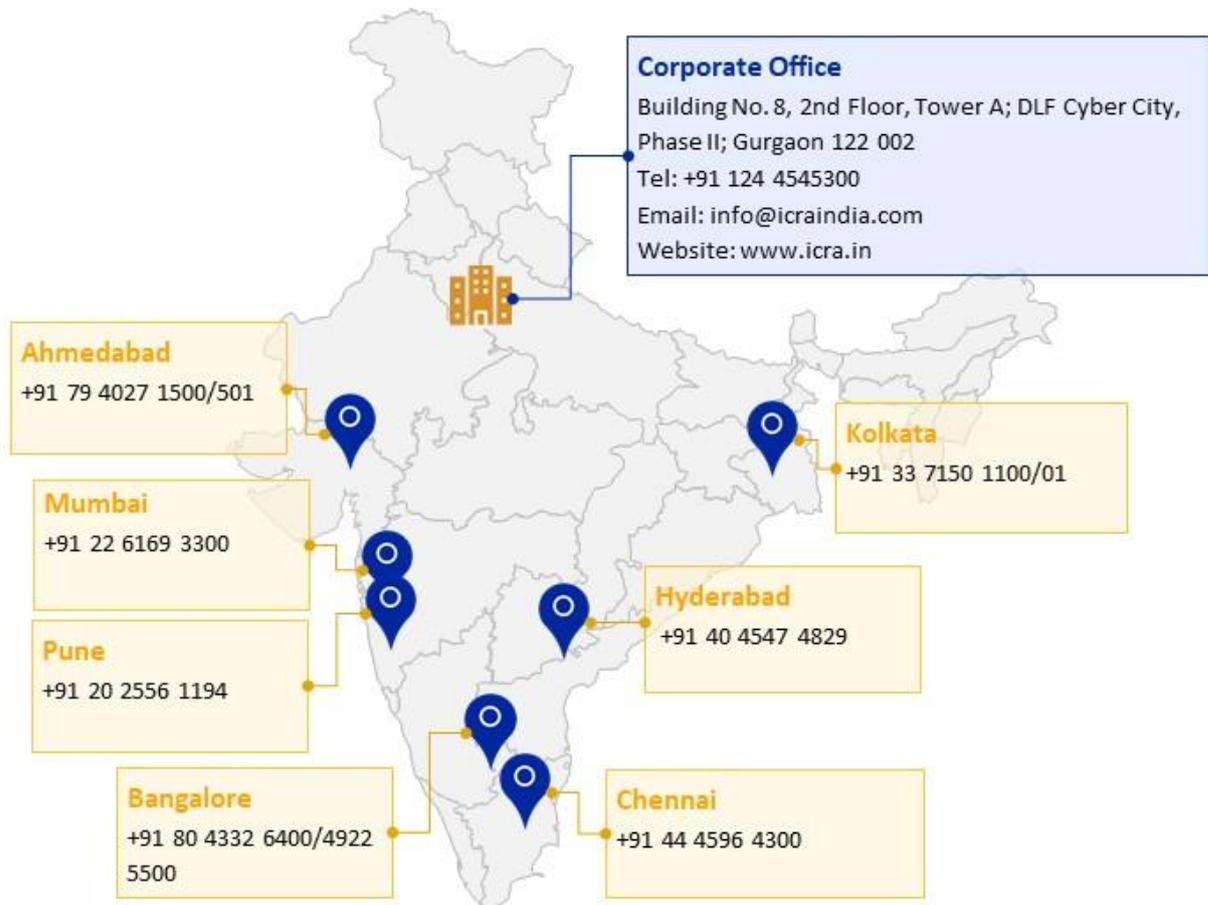
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