

March 22, 2024

Kotak Mahindra Investments Limited: [ICRA]AAA (Stable) assigned to NCD programme; ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	-	2,000.00	[ICRA]AAA (Stable); assigned
Non-convertible debentures	2,500.00	2,500.00	[ICRA]AAA (Stable); reaffirmed
Subordinated debt programme	200.00	200.00	[ICRA]AAA (Stable); reaffirmed
Commercial paper programme	7,000.00	7,000.00	[ICRA]A1+; reaffirmed
Commercial paper (IPO financing) programme	3,500.00	3,500.00	[ICRA]A1+; reaffirmed
Total	13,200.00	15,200.00	

*Instrument details are provided in Annexure I

Rationale

The ratings factor in Kotak Mahindra Investments Limited's (KMIL) strong parentage – it is a wholly-owned subsidiary of Kotak Mahindra Bank Limited {KMBL; rated [ICRA]AAA (Stable)}. The ratings consider the shared brand name and the representation of KMBL on KMIL's board of directors. The company benefits from the Kotak Mahindra Group's (Kotak Group) experience in corporate and real estate lending. KMIL's capital profile remains strong supported by the profitability, thereby limiting its capital dependence on its promoter to support its envisaged loan book growth in the medium term. ICRA, however, expects the parent to support the company as and when required. The ratings also consider KMIL's strong asset quality and underwriting Process.

The company has a high share of corporate loans and real estate financing, resulting in concentration risk. As a result, KMIL's asset quality and credit costs are exposed to volatility on account of the lumpiness in the loan book and the inherent risks associated with real estate loans. However, ICRA derives comfort from the Kotak Group's experience in real estate financing with strict underwriting norms and risk mitigants and collateral, leading to low credit costs in the past.

The Stable outlook reflects ICRA's expectation 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.

Key rating drivers and their description

Credit strengths

Strong parentage – KMIL is a wholly-owned subsidiary of KMBL. It enjoys financial and operational support from the Kotak Group, which, in the past, included access to capital, management and board supervision. KMIL also benefits from its shared brand name with the Kotak Group and the Group's experience in corporate and real estate lending.

The company had a net worth of Rs. 3,170 crore and its capital-to-risk weighted assets ratio (CRAR) stood at 24.56% as on December 31, 2023, supported by the sustained profitability. With the growth in the portfolio, KMIL's gearing (debt/net worth) increased to 3.29 times as on September 30, 2023 (2.91 times as on March 31, 2022). During the period of commercial paper (CP) borrowings for applying to initial public offerings on the proprietary account for one to two weeks, the peak gearing remains high for a very short period, though KMIL monitors the capital adequacy level daily and maintains the same above the regulatory requirement. As a part of the Kotak Group, the company enjoys considerable financial flexibility in raising funds at competitive rates. KMIL's capital profile remains strong, given the steady profitability, thereby limiting its capital dependence

on the promoter for its envisaged loan book growth in the medium term. ICRA, however, expects the parent to support the company as and when required.

Asset quality remains stable – KMIL's strong underwriting is reflected in its asset quality. On the gross loan book of Rs. 11,277 crore, the gross and net stage 3 stood at 0.6% and 0.2%, respectively, as on December 31, 2023 (1.2% and 0.5%, respectively, as on March 31, 2022). Given the strong asset quality, the credit costs have been low in the past. KMIL's asset quality and credit costs are, however, exposed to volatility on account of the lumpiness in the loan book and the inherent risks associated with real estate loans. ICRA factors in the adequate structural mechanisms in terms of security cover, exclusive charge over the underlying asset, and escrow accounts to trap the project's cash flows. Further, the churning in the real estate portfolio remains high despite the lumpy loan book.

Profitability supported by lower credit costs – KMIL reported a profit after tax (PAT) of Rs. 340 crore in FY2023 compared to Rs. 396 crore in FY2022. The return on average total assets (RoA) declined to 3.1% in FY2023 from 4.5% in FY2022 on account of lower net interest margins (NIMs) due to the higher borrowing costs and lower realised gains from the sale of investments compared to FY2022 (realised gain of Rs. 25 crore compared to Rs. 83 crore in FY2022). Operating expenses remained stable in FY2023 with operating expenses/average total assets (ATA) at 0.7%. With the reduction in stage 2 loans in FY2023, credit cost reversal stood at Rs. 14 crore in FY2023 (Rs. 53 crore in FY2022). For 9MFY2024, KMIL reported a PAT of Rs. 366 crore in 9M FY2024 compared to Rs. 225 crore in 9M FY2023, driven by the increase in the loan book and gains on proprietary investment in IPO. ICRA expects the company to maintain its profitability in the medium term.

Credit challenges

Concentrated exposure in corporate loans segment and relatively risky real estate segment – Real estate loans accounted for 55% (55% as on March 31, 2022) while corporate loans accounted for 45% (42% as on March 31, 2022) of the total loan book of Rs. 11,227 crore as on December 31, 2023. The company's real estate portfolio remains exposed to concentration risks owing to the large ticket size and the inherent risks associated with these loans. The top 20 advances formed 44% of the total advances and 158% of the net worth as on September 30, 2023 (40% and 118%, respectively, as on March 31, 2022). Moreover, recoveries in this segment take longer compared to retail loans. Further, KMIL has unsecured corporate loan exposures amounting to 19% of the total loan book, though these exposures are towards large, reputed and creditworthy corporates. KMIL's strong credit underwriting process and adequate structural mechanisms, in terms of security cover and exclusive charge on the underlying assets, provide comfort.

Liquidity position: Strong

The company had unencumbered cash and cash equivalents of Rs. 1,874 crore and undrawn sanctioned banking lines of Rs. 910 crore as on February 29, 2024. This is adequate to meet the scheduled debt obligations of Rs. 2,333 crore for the next six months. KMIL did not have any negative mismatches in the asset-liability management (ALM) profile as on February 29, 2024. It enjoys considerable financial flexibility as 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 (NBFCs)
Parent/Group support	Parent: Kotak Mahindra Bank Limited KMIL is a wholly-owned subsidiary of KMBL. 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 Investments Limited (KMIL) is a wholly-owned subsidiary of Kotak Mahindra Bank Limited (KMBL), which is the flagship company of the Kotak Group. It commenced operations in 1986 as a bill discounting and leasing non-banking financial company (NBFC), Kotak Mahindra Finance Limited, and was converted into a bank in 2003. Effective April 1, 2015, ING Vysya Bank merged with KMBL. As on March 31, 2023, KMBL had a network of 1,780 branches (excluding GIFT and DIFC) and its net advances stood at Rs. 3,19,861 crore.

KMIL is engaged in lending to the real estate and other sectors, providing structured finance and holding strategic investments. The real estate division lends to developers across the entire spectrum – residential, commercial and retail.

Key financial indicators

KMIL	FY2022	FY2023	9M FY2024^
Total income	894	909	1,048
Profit/(loss) after tax	396	340	366
Total assets	9,684	12,198	NA
Return on assets	4.5%	3.1%	NA
Gross gearing (times)	2.91	3.34	NA
Gross stage 3	1.2%	1.2%	0.6%
CRAR	34.2%	28.6%	24.6%

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	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
				Date & Rating in FY2024			Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
				Mar 22, 2024	Nov 27, 2023	Oct 06, 2023	Nov 14, 2022	Aug 10, 2022	Aug 13, 2021	Aug 21, 2020
1 Non-convertible debentures programme	LT	2,000.00	-	[ICRA]AAA (Stable)	-	-	-	-	-	-
2 Non-convertible debentures programme	LT	2,500.00	1,248.50	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
3 Commercial paper programme	ST	7,000.00	770.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Subordinated debt programme	LT	200.00	200.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5 Commercial paper (IPO financing) programme	ST	3,500.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*As on March 15, 2024; LT – Long term, ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures programme	Very Simple
Subordinated debt programme	Very Simple
Commercial paper programme	Very Simple
Commercial paper (IPO financing) 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:

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Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE975F07IE6	Non-convertible debentures	Feb 23, 2023	8.14%	Jun 23, 2026	88.50	[ICRA]AAA (Stable)
INE975F07IE6	Non-convertible debentures	Mar 14, 2023	8.14%	Jun 23, 2026	125.00	[ICRA]AAA (Stable)
INE975F07IM9	Non-convertible debentures	Sep 27, 2023	8.04%	Oct 06, 2026	230.00	[ICRA]AAA (Stable)
INE975F07IO5	Non-convertible debentures	Oct 26, 2023	8.22%	Nov 27, 2026	300.00	[ICRA]AAA (Stable)
INE975F07IP2	Non-convertible debentures	Nov 13, 2023	8.19%	Jan 28, 2027	175.00	[ICRA]AAA (Stable)
INE975F07IP2	Non-convertible debentures	Dec 06, 2023	8.19%	Jan 28, 2027	200.00	[ICRA]AAA (Stable)
INE975F07IM9	Non-convertible debentures	Nov 13, 2023	8.04%	Oct 06, 2026	50.00	[ICRA]AAA (Stable)
INE975F07IQ0	Non-convertible debentures	Dec 28, 2023	8.24%	May 27, 2027	80.00	[ICRA]AAA (Stable)
Not yet placed	Non-convertible debentures	NA	NA	NA	3,251.50	[ICRA]AAA (Stable)
INE975F08CR9	Subordinated debt programme	Dec 31, 2015	9.00%	Dec 31, 2025	50.00	[ICRA]AAA (Stable)
INE975F08CS7	Subordinated debt programme	Dec 20, 2016	8.35%	Dec 18, 2026	50.00	[ICRA]AAA (Stable)
INE975F08CT5	Subordinated debt programme	Mar 24, 2017	8.55%	Mar 24, 2027	100.00	[ICRA]AAA (Stable)
INE975F14YD1	Commercial paper programme	Apr 10, 2023	7.90%	Apr 08, 2024	75.00	[ICRA]A1+
INE975F14YD1	Commercial paper programme	Apr 11, 2023	7.90%	Apr 08, 2024	50.00	[ICRA]A1+
INE975F14YL4	Commercial paper programme	Jul 14, 2023	7.80%	Jul 12, 2024	100.00	[ICRA]A1+
INE975F14YQ3	Commercial paper programme	Jul 21, 2023	7.74%	Jul 19, 2024	50.00	[ICRA]A1+
INE975F14YR1	Commercial paper programme	Jul 24, 2023	7.70%	Jul 23, 2024	25.00	[ICRA]A1+
INE975F14YV3	Commercial paper programme	Aug 24, 2023	7.86%	Jul 31, 2024	75.00	[ICRA]A1+
INE975F14YU5	Commercial paper programme	Aug 24, 2023	7.86%	Aug 22, 2024	25.00	[ICRA]A1+
INE975F14YU5	Commercial paper programme	Aug 24, 2023	7.86%	Aug 22, 2024	30.00	[ICRA]A1+
INE975F14YU5	Commercial paper programme	Aug 24, 2023	7.86%	Aug 22, 2024	30.00	[ICRA]A1+
INE975F14YU5	Commercial paper programme	Aug 24, 2023	7.86%	Aug 22, 2024	50.00	[ICRA]A1+
INE975F14YV3	Commercial paper programme	Aug 28, 2023	7.86%	Jul 31, 2024	50.00	[ICRA]A1+
INE975F14YW1	Commercial paper programme	Aug 28, 2023	7.77%	Jun 14, 2024	25.00	[ICRA]A1+
INE975F14YW1	Commercial paper programme	Aug 28, 2023	7.77%	Jun 14, 2024	50.00	[ICRA]A1+
INE975F14YW1	Commercial paper programme	Aug 28, 2023	7.77%	Jun 14, 2024	50.00	[ICRA]A1+
INE975F14YY7	Commercial paper programme	Aug 29, 2023	7.77%	May 15, 2024	75.00	[ICRA]A1+
INE975F14YZ4	Commercial paper programme	Aug 30, 2023	7.77%	May 30, 2024	10.00	[ICRA]A1+
Not yet placed	Commercial paper programme	NA	NA	NA	6,230.00	[ICRA]A1+
Not yet placed	Commercial paper (IPO financing) programme	NA	NA	NA	3,500.00	[ICRA]A1+

Source: Company; As on March 15, 2024

Annexure II: List of entities considered for consolidated analysis

Company Name	KMIL Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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Branches



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