

April 15, 2024

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	-	2,500.00	[ICRA]AAA (Stable); assigned
Non-convertible debentures	7,175.90	7,175.90	[ICRA]AAA (Stable); reaffirmed
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
Subordinated debt programme	400.30	400.30	[ICRA]AAA (Stable); reaffirmed
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	29,508.45	32,008.45	

*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 2.4 times as on December 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 the gross and net stage 3 at 2.4% and 1.0%, respectively, as on December 31, 2023 (3.1% and 1.6%, respectively, as on March 31, 2022). Further, KMPL's strong credit assessment process and its track record of managing cycles in the auto financing industry provide comfort. The corporate portfolio (5% of the assets under management (AUM) as on December 31, 2023) is, however, exposed to the inherent risks associated with real estate loans and lumpiness. This portfolio has declined gradually 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 72% of the AUM as on December 31, 2023. Moreover, as the LAP portfolio seasons, the asset quality of this segment will also be a monitorable.

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.

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. The company also benefits from its shared brand name with the Kotak Group.

With a net worth of Rs. 11,251 crore, KMPL is strongly capitalised and its capital adequacy ratio stood at 23.2% (Tier I of 22.6%) as on December 31, 2023. The capitalisation is supported by healthy profit accretion and the gearing stood at 2.4 times as on December 31, 2023 compared to 2.1 times as on March 31, 2022. KMPL's AUM grew by 14% YoY to Rs. 29,536 crore as on March 31, 2023 and further to Rs. 33,796 crore as on December 31, 2023. Given the company has been gradually scaling up its LAP portfolio, which has a relatively longer amortisation tenor, the growth in the 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 the growth in the loan portfolio, the net interest income grew by 13% to Rs. 1,629 crore in FY2023 and the net interest margin (NIM) largely remained stable as the increase in the cost of borrowings was passed on to the customers. However, as the company is expanding its distribution network, the operating expense increased to 1.8% of ATA in FY2023 from 1.5% in FY2022. The credit costs remained low and the reversal of 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 RoTA declined to 3.0% in FY2023 from 3.4% in FY2022. KMPL reported a 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 March 31, 2023 from 4.3% as on March 31, 2021. 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.

With the normalisation of credit costs, the PAT for the company has been lower at Rs. 662 crore in 9M FY2024 compared to Rs. 715 crore in 9M FY2023.

Credit challenges

Loan book largely comprising passenger vehicle finance – With passenger vehicle loans and dealer financing forming a significant part (72% as on December 31, 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 has ventured into the retail LAP segment (9% of the AUM as on December 31, 2023), which is expected to support its loan book diversification, though the asset quality of the same will be a monitorable as the loan book seasons. Further, within vehicle loans, KMPL has a presence in two-wheeler financing (~9% of the AUM as on December 31, 2023), while corporate loans declined to 5% as on December 31, 2023 (22% as on March 31, 2022).

Liquidity position: Strong

As on March 31, 2024, the company had unencumbered cash and cash equivalents of Rs. 2,801 crore and sanctioned and undrawn bank lines of Rs. 1,534 crore. This is adequate to meet the scheduled debt obligations for over three months. KMPL did not have any negative cumulative mismatches in the Statement of Structural Liquidity (SLS) 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
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 (KMPL) 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 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	9M FY2024^
Total income	2,626	2,994	2,846
Profit / (loss) after tax)	975	948	662
Total assets	30,127	34,108	NA
Return on assets	3.4%	3.0%	NA
Gross gearing (times)	2.1	2.2	2.4
Gross stage 3	3.1%	2.4%	2.4%
CRAR	30.9%	28.5%	23.2%

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 (FY2025)		Chronology of Rating History for the Past 3 Years					
				Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				Apr 15, 2024	Dec 27, 2023	Nov 09, 2023	Jun 29, 2023	Oct 25, 2022	Feb 15, 2022	Aug 13, 2021	
1	Commercial paper programme (IPO financing)	Short term	6,500.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Commercial paper programme	Short term	9,000.00	4,410.00	[ICRA]A1+	[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)	[ICRA]AAA (Stable)
4	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)
5	Non-convertible debentures	Long term	2,500.00	-	[ICRA]AAA (Stable)	-	-	-	-	-	-
6	Non-convertible debentures	Long term	7,175.90	6,575.00	[ICRA]AAA (Stable)	[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)	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)	[ICRA]AAA (Stable)

As on April 03, 2024

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
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+
INE916D143A0	Commercial paper programme	Dec 06, 2023	8.00	Jul 05, 2024	100.00	[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+
INE916D142W6	Commercial paper programme	Nov 09, 2023	7.95	Nov 05, 2024	325.00	[ICRA]A1+
INE916D143C6	Commercial paper programme	Feb 13, 2024	8.22	Feb 05, 2025	475.00	[ICRA]A1+
INE916D143E2	Commercial paper programme	Mar 06, 2024	8.10	Mar 05, 2025	215.00	[ICRA]A1+
Not yet placed	Commercial paper programme	-	-	-	4,590.00	[ICRA]A1+
INE916DA7RW2	Non-convertible debentures	Oct 25, 2022	7.92	Feb 20, 2026	670.00	[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	500.00	[ICRA]AAA (Stable)
INE916DA7SI9	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	575.00	[ICRA]AAA (Stable)
INE916DA7SL3	Non-convertible debentures	Nov 09, 2023	8.09	Nov 09, 2026	600.00	[ICRA]AAA (Stable)
INE916DA7SN9	Non-convertible debentures	Jan 11, 2024	8.20	Jan 11, 2027	650.00	[ICRA]AAA (Stable)
INE916DA7SO7	Non-convertible debentures	Feb 21, 2024	8.23	Apr 21, 2027	650.00	[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)
INE916DA7SM1	Non-convertible debentures	Dec 15, 2023	8.20	Dec 15, 2028	650.00	[ICRA]AAA (Stable)
INE916DA7SQ2	Non-convertible debentures	Mar 15, 2024	8.05	Mar 15, 2029	500.00	[ICRA]AAA (Stable)
Unutilised	Non-convertible debentures	-	-	-	3,100.90	[ICRA]AAA (Stable)
INE916D08DX4	Subordinated debt programme	Dec 07, 2017	8.25	Dec 07, 2027	100.00	[ICRA]AAA (Stable)
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; As on April 03, 2024

[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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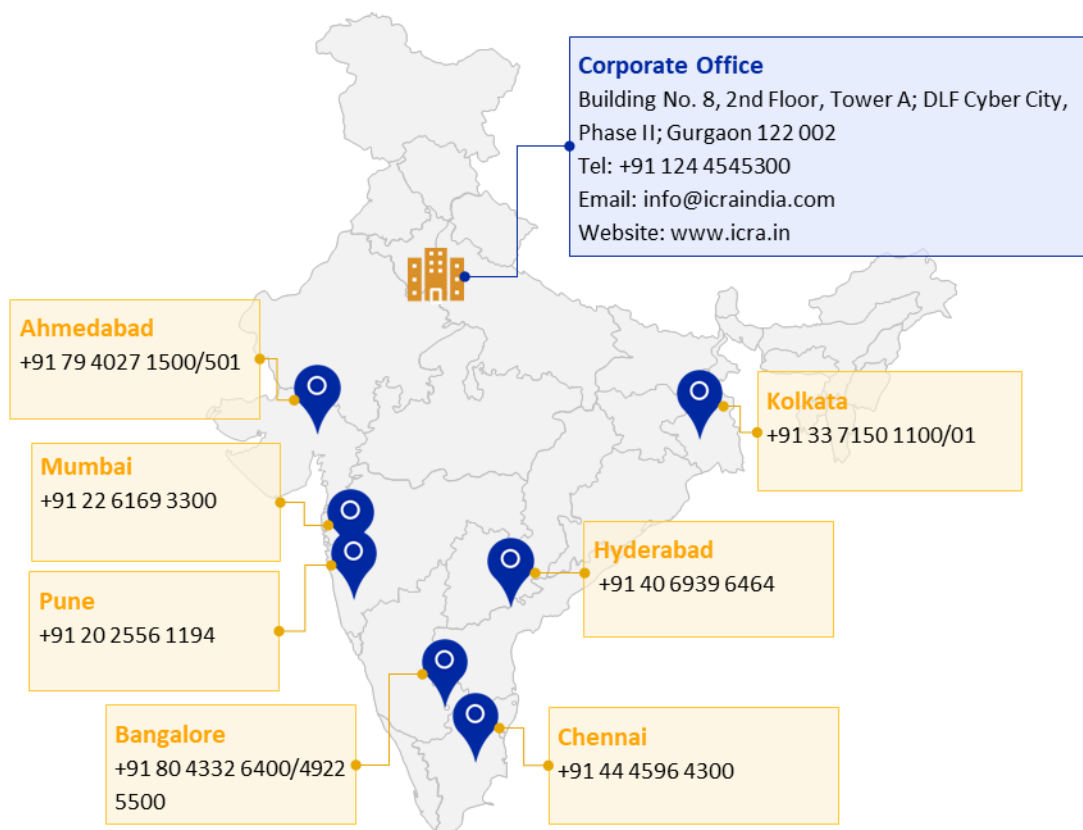


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