June 03, 2024

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	5,000.00	[ICRA]A1+; assigned/reaffirmed
Commercial paper programme (IPO financing)^	5,000.00	5,000.00	[ICRA]A1+; reaffirmed
Total	**8,000.00**	**10,000.00**	

**Instrument details are provided in Annexure I*

^Assigned for public offer financing and/or application on proprietary account

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 90% of its loan book and demand for LAS could be impacted by market cycles. The company's profitability improved in FY2024, driven by the gain on investments. The loan book is concentrated with the top 20 loans accounting for 72% of the portfolio and 109% of the net worth, given the single loan product and the moderate scale. Liabilities are also concentrated towards commercial paper (CP) funding. However, Infina's comfortable asset quality and history of negligible credit losses, supported by liquid listed securities, provide comfort.

While Infina's gearing remains modest, it usually increases for ~1-2 weeks when it utilises its CP for proprietary initial public offering (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 March 31, 2024, 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 past 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. 2,536 crore as on March 31, 2024 and a modest gearing of 0.75 times. The Tier I capital adequacy ratio stood at 54.7% as on March 31, 2024. 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 – Interest income from LAS, proprietary trading (both realised and unrealised gains) and income from long-term investments have been Infina's major sources of income (LAS accounted for 90% of the overall loan book as of March 31, 2024). 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. 229 crore in FY2024 (PAT/average total assets (ATA) of 5.9%) compared to Rs. 106 crore in FY2023 (3.3%), driven by the higher gain on investments of Rs. 142 crore (including sale of private equity investment, post listing, and gains on IPO) in FY2024 (Rs. 17 core in FY2023). Further, the net interest income was higher in FY2024 due to the growth in the loan book. With the company diversifying into new loan segments such as loan against property and corporate real estate, its profitability is likely to be lower in FY2025 due to the initial setting-up expenses towards the new loan segments.

Concentration in loan book and liabilities – The loan book grew to Rs. 3,825 crore as on March 31, 2024 from Rs. 2,776 crore as on March 31, 2023, driven by the buoyancy in the capital markets. 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. The loan book remains concentrated with the top 20 exposures accounting for a sizeable portion (72% of the portfolio and 109% of the net worth as on March 31, 2024). Given the LAS-focussed 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 April 30, 2024, Infina had a free cash and bank balance and liquid investments of Rs. 130 crore against the total debt (CP) outstanding of Rs. 895 crore maturing in the next six months. 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 April 30, 2024. 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Non-banking Finance Companies]
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) providing loans 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)

	FY2023	FY2024
Total income	228	467
Profit/(loss) after tax	106	229
Total assets	3,326	4,476
Return on Avg assets	3.3%	5.9%
Gross gearing (times)	0.43	0.75
Gross stage 3	0.0%	0.0%
CRAR	66.9%	55.3%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on May 15, 2024 (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024			Date & Rating in FY2023	Date & Rating in FY2022	
					Jun 03, 2024	Nov 23, 2023	Oct 06, 2023	Apr 26, 2023	Apr 06, 2022	Jul 19, 2021	Apr 16, 2021
1	Commercial paper programme (IPO financing)^	ST	5,000.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
2	Commercial paper programme	ST	5,000.00	2,470.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

ST – Short term; ^ Assigned for public offer financing and/or application on proprietary account

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
INE879F14HI9	Commercial paper programme	Jun 28, 2023	7.9	Jun 12, 2024	215.00	[ICRA]A1+
INE879F14HL3	Commercial paper programme	Jun 30, 2023	7.9	Jun 27, 2024	30.00	[ICRA]A1+
INE879F14IC0	Commercial paper programme	Oct 16, 2023	8.5	Oct 15, 2024	150.00	[ICRA]A1+
INE879F14ID8	Commercial paper programme	Oct 23, 2023	8.6	Oct 22, 2024	100.00	[ICRA]A1+
INE879F14IF3	Commercial paper programme	Oct 30, 2023	8.7	Aug 22, 2024	150.00	[ICRA]A1+
INE879F14IM9	Commercial paper programme	Dec 11, 2023	8.8	Dec 10, 2024	200.00	[ICRA]A1+
INE879F14IN7	Commercial paper programme	Dec 19, 2023	8.8	Dec 18, 2024	50.00	[ICRA]A1+
INE879F14IP2	Commercial paper programme	Dec 22, 2023	8.8	Dec 20, 2024	150.00	[ICRA]A1+
INE879F14IR8	Commercial paper programme	Jan 19, 2024	8.9	Jan 17, 2025	250.00	[ICRA]A1+
INE879F14IR8	Commercial paper programme	Jan 19, 2024	8.9	Jan 17, 2025	100.00	[ICRA]A1+
INE879F14IS6	Commercial paper programme	Feb 02, 2024	9.0	Feb 01, 2025	250.00	[ICRA]A1+
INE879F14IT4	Commercial paper programme	Feb 09, 2024	9.0	Feb 07, 2025	100.00	[ICRA]A1+
INE879F14IV0	Commercial paper programme	Mar 22, 2024	8.5	Jun 21, 2024	250.00	[ICRA]A1+
INE879F14IW8	Commercial paper programme	May 07, 2024	8.0	Aug 06, 2024	25.00	[ICRA]A1+
INE879F14IY4	Commercial paper programme	May 09, 2024	8.2	Sep 09, 2024	150.00	[ICRA]A1+
INE879F14IZ1	Commercial paper programme	May 13, 2024	8.0	Aug 12, 2024	200.00	[ICRA]A1+
INE879F14JA2	Commercial paper programme	May 15, 2024	8.0	Aug 14, 2024	100.00	[ICRA]A1+
Not yet placed	Commercial paper programme	NA	NA	NA	2,530.00	[ICRA]A1+
Not yet placed	Commercial paper (IPO financing) programme	NA	NA	NA	5,000.00	[ICRA]A1+

Source: Company; Data as on May 15, 2024

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

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About ICRA Limited:

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