ICRA

September 27, 2024

Kotak Infrastructure Debt Fund Limited: [ICRA]AAA (Stable) assigned; ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	1,100.00	1,100.00	[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture programme^	100.00	0.00	[ICRA]AAA (Stable); reaffirmed and withdrawn
Non-convertible debenture programme	0.00	1,000.00	[ICRA]AAA (Stable); assigned
Commercial paper programme	50.00	50.00	[ICRA]A1+; reaffirmed
Total	**1,250.00**	**2,150.00**	

**Instrument details are provided in Annexure I; ^ The withdrawal is at the request of the company since the rated instrument has matured and is fully repaid*

Rationale

The ratings reflect Kotak Infrastructure Debt Fund Limited's (KIDF) demonstrated track record of nil stage 3 loan assets since the commencement of operations, supported by the tight regulatory framework necessitating lending to operational projects, and its parentage. Comfort is drawn from KIDF's promoter/shareholder, Kotak Mahindra Bank Limited {KMBL; rated [ICRA]AAA (Stable)}. Any dilution in the expected level of support from the Kotak Group or a change in the credit profile of KMBL would be a key rating sensitivity. The ratings also consider the company's strong liquidity profile, supported by regulatory restrictions on the proportion of short-term debt in the overall borrowing mix, and its good capitalisation profile.

ICRA notes that the scope of lending and fund-raising options has been expanded under the revised regulatory framework for non-banking financial companies-infrastructure debt funds (NBFC-IDFs) released on August 18, 2023 by the Reserve Bank of India (RBI). The impact of the same on the loan and borrowing mix would be visible only over the medium term. Also, the capital requirement (minimum Tier I requirement increased to 10% from 7.5%) and exposure norms (maximum permissible single party exposure capped at 30% of Tier I capital compared with higher limits earlier) have been tightened, though KIDF is well within the threshold for both these parameters. Further, ICRA notes that if the RBI's draft regulations on provisioning for project finance are implemented in the current format, the impact on the reported capital adequacy of NBFC-IDFs will be marginal. KIDF has sufficient buffer in its Tier I capital to absorb any impact.

Given the wholesale nature of the loans, the concentration risk remains relatively high. However, ICRA draws comfort from the tighter regulatory framework and the company's risk management systems as reflected by the strong asset quality indicators. Going forward, KIDF's ability to grow its loan book while maintaining prudent capitalisation levels and strong asset quality on a steady-state basis would be a key monitorable. In this regard, the absolute level of net worth would restrict the company's competitive position as its ability to take larger exposures would be limited due to the exposure norms.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 100-crore non-convertible debenture (NCD) programme as no amount is outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

The Stable outlook reflects ICRA expectation that KIDF's business will continue to benefit from the relatively tighter regulatory framework, support from the promoter/ shareholder, and prudent policy framework.

Key rating drivers and their description

Credit strengths

Strong asset quality; regulatory framework necessitates lending to operational projects, reducing overall business risk – KIDF's portfolio grew by ~32% year-on-year (YoY) to Rs. 1,297.3 crore from Rs. 980.5 crore as on March 31, 2023 owing to disbursements primarily to the solar renewable energy, education and transmission sectors. The solar renewable energy segment had the highest share at 69% of the portfolio as on March 31, 2024, followed by the wind and hydro segment (12%), airports (8%), transmission (8%) and education (3%).

The regulatory framework for IDFs necessitates lending/investment in infrastructure projects with at least one year of satisfactory commercial operations and also allows direct lending to toll-operate-transfer (TOT) projects. Hence, construction and execution risks are nil and the operating risk is low, given the track record of operations, though ICRA notes that the requirement of tripartite agreements is now optional. This exposes the IDFs to the risk of higher loss given defaults (LGDs) associated with the project in the event of termination. Nevertheless, the LGDs of the road and renewable energy sectors are likely to remain low and the asset quality of these operational projects (including projects without tripartite agreements) is expected to be stable, given the lower risks compared to non-operational projects. ICRA expects KIDF to grow the book at a relatively high rate, given the small base vis-à-vis peer infrastructure financing entities and good growth prospects given the expected investments in the infrastructure sector. However, the renewable energy sector would continue to dominate the portfolio mix over the medium term.

Strong parentage – KMBL holds a 30% stake in KIDF while the balance is held by the bank's subsidiaries, namely Kotak Securities Limited, Kotak Investment Advisors Limited and Kotak Mahindra Capital Company Limited. Consequently, KIDF enjoys strong financial and operational support from the Kotak Group, including access to capital, operational synergies, management and systems. In addition to capital support, the Group has aided KIDF by investing in its debt issuances in the past.

Good capitalisation profile for current scale of operations – The company reported a comfortable capital adequacy ratio (capital to risk-weighted assets ratio; CRAR) of 59.6% (Tier I of 59.3%) as on March 31, 2024. The gearing was low at 1.8 times as on March 31, 2024. However, with incremental business likely to be funded out of fresh borrowings, the gearing would increase from the current level and is expected to be below 4 times over the near-to-medium term. KIDF's capitalisation profile is expected to remain comfortable with low incremental capital requirement. Further, ICRA notes that if the RBI's draft regulations on provisioning for project finance are implemented in the current format, the impact on the reported capital adequacy of NBFC-IDFs will be marginal. KIDF has sufficient buffer in its Tier I capital to absorb any impact. In ICRA's opinion, prudent capitalisation level is one of the key risk mitigants and a monitorable for a portfolio that has a relatively higher concentration risk.

Profitability supported by tax-exemption status of IDFs – KIDF's net interest margin (NIM) improved to 2.6% in FY2024 from 1.8% in FY2023 (3.0% in FY2022, 4.0% in FY2021) partly because of incremental disbursements at higher rates and lower on-balance liquidity. This was despite the higher cost of borrowing because of the elevated systemic interest rates. However, given the wholesale nature of the operations, operating expenses remained low at 0.7% of average total assets in FY2024 (0.6% in FY2023) but higher than the peer set owing to the relatively modest scale of operations. As on March 31, 2024, KIDF had nil gross stage 3 assets; consequently, credit costs remained low at 0.2% in FY2024 (0.1% in FY2023). At the same time, the decline in non-interest income during this period led to a marginal moderation in the profitability indicators despite higher NIMs with KIDF reporting a return on assets (RoA) of 2.5% in FY2024 compared with 2.8% in FY2023.

Going forward, KIDF's profitability indicators are expected to improve with the increase in the scale of operations, which would lead to better operating efficiency. Subject to compliance with the conditions stipulated by the Central Board of Direct Taxes (CBDT), an IDF-NBFC's income is exempt from tax, which supports its overall profitability. ICRA notes that any changes in these regulations could have an adverse impact on the profitability.

Credit challenges

Relatively high concentration risk – Regulations require all IDFs to take exposure only in operational infrastructure projects with at least one year of commercial operations, which mitigates the construction and execution risk. However, the inherent nature of the business of infrastructure financing means that the company is exposed to project risks and the exposures are concentrated. Hence, the portfolio would remain vulnerable to asset quality shocks in case of slippages in a few key exposures, which may adversely affect its profitability. ICRA notes that KIDF is compliant with the tightened exposure norms (maximum permissible single party exposure capped at 30% of Tier I capital by the RBI in FY2024). Nonetheless, the concentration risk remains high for the company, with its top 10 borrowers accounting for ~63% of the total portfolio and 160% of the net worth as on March 31, 2024 compared with ~68% and 141%, respectively, as on March 31, 2023. Going forward, KIDF's ability to maintain strict underwriting standards while growing the portfolio would be a key monitorable.

Liquidity position: Strong

KIDF, in line with the regulations for NBFC- IDFs, can raise resources only through the issuance of bonds of minimum five years' maturity. Shorter-tenure bonds and commercial paper are not allowed beyond 10% of the outstanding debt. Further, since IDF-NBFCs can only invest in projects that have completed at least one year of commercial operations, loan repayments start immediately after disbursement, auguring well for the asset-liability maturity (ALM) profile.

The company's ALM, as on June 30, 2024, reflected positive cumulative mismatches across all buckets up to 1 year. As on June 30, 2024, it had available liquidity in the form of cash and liquid investments up to ~Rs. 115 crore, providing comfortable liquidity cover over the debt repayments of Rs. 35 crore, which are due over the next one year. Further, liquidity is supported by the expected cash inflow of ~Rs. 159 crore from advances during the above-mentioned period. ICRA also derives comfort from KIDF's good financial flexibility and the expectation of support from the shareholders, if required.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Any significant change in the regulatory framework, leading to an increase in the portfolio vulnerability, and/or a change in the likelihood of support from the sponsors or key shareholders or a deterioration in the credit profile of the sponsors or key shareholders could warrant a rating revision for the company. Pressure on KIDF's ratings could emerge on the weakening of the capitalisation profile (gearing of more than 9 times) on a sustained basis and/or of the asset quality, leading to a deterioration in the solvency on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's credit rating methodology for non-banking finance companies Policy on withdrawal of credit ratings
Parent/Group support	KMBL holds a 30% stake in KIDF while the balance is held by its subsidiaries – Kotak Securities Limited, Kotak Investment Advisors Limited and Kotak Mahindra Capital Company Limited. Consequently, KIDF enjoys strong financial and operational support from the Kotak Group, including access to capital, management and systems. ICRA expects the company to maintain prudent capitalisation and expects that support from the shareholders would be forthcoming as and when required.
Consolidation/Standalone	Standalone

About the company

Kotak Infrastructure Debt Fund Limited (KIDF), formerly known as Kotak Forex Brokerage Limited, was in the foreign exchange related business. The company planned to foray into the infrastructure debt fund business and had applied for a licence from the Reserve Bank of India (RBI) in October 2016, which was received in April 2017. KIDF is fully owned by KMBL and its subsidiaries.

KIDF reported a profit after tax (PAT) of Rs. 33.8 crore in FY2024 on a total asset base of Rs. 1,434.0 crore as on March 31, 2024 compared to a PAT of Rs. 30.2 crore in FY2023 on a total asset base of Rs. 1,217.7 crore as on March 31, 2023. It had a net worth of Rs. 509.6 crore with a gearing of 1.8 times as on March 31, 2024 (Rs. 475.9 crore and 1.5 times as on March 31, 2023). KIDF reported nil gross stage 3 as on March 31, 2024 as well as March 31, 2023.

Key financial indicators

KIDF	FY2023	FY2024
Total income	77.0	111.2
Profit after tax	30.2	33.8
Total assets	1,217.7	1,434.0
Return on average total assets	2.8%	2.5%
Gearing (Debt/Net worth; times)	1.5	1.8
Gross stage 3	0.0%	0.0%
CRAR	67.7%	59.6%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)*	27-SEP-2024	Date	Rating	Date	Rating	Date	Rating
Non-convertible debenture	Long term	1,100.00	[ICRA]AAA (Stable)	29-SEP-2023	[ICRA]AAA (Stable)	02-AUG-2022	[ICRA]AAA (Stable)	27-AUG-2021	[ICRA]AAA (Stable)
				-	-	20-MAR-2023	[ICRA]AAA (Stable)	-	-
				-	-	20-MAR-2023	[ICRA]AAA (Stable)	-	-
Commercial paper	Short term	50.00	[ICRA]A1+	29-SEP-2023	[ICRA]A1+	02-AUG-2022	[ICRA]A1+	27-AUG-2021	[ICRA]A1+
				-	-	20-MAR-2023	[ICRA]A1+	-	-
Non-convertible debenture	Long term	1,000.00	[ICRA]AAA (Stable)	-	-	-	-	-	-

Source: Company data

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture programme	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 as on August 31, 2024

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE905Y07043	**Non-convertible debenture**	May-30-2019	9.15%	Jun-28-2024	100	[ICRA]AAA (Stable); withdrawn
INE905Y07050	**Non-convertible debenture**	Nov-30-2022	7.97%	Dec-17-2027	90	[ICRA]AAA (Stable)
INE905Y07068	**Non-convertible debenture**	Dec-28-2022	7.97%	Feb-17-2028	120	[ICRA]AAA (Stable)
INE905Y07076	**Non-convertible debenture**	Mar-21-2023	8.30%	May-19-2028	205	[ICRA]AAA (Stable)
INE905Y07084	**Non-convertible debenture**	Mar-31-2023	8.29%	Jul-20-2028	50	[ICRA]AAA (Stable)
INE905Y07092	**Non-convertible debenture**	Jun-30-2023	8.05%	Aug-29-2028	110	[ICRA]AAA (Stable)
INE905Y07100	**Non-convertible debenture**	Jul-27-2023	8.07%	Oct-26-2028	85	[ICRA]AAA (Stable)
INE905Y07126	**Non-convertible debenture**	Jun-27-2024	8.10%	May-28-2030	75	[ICRA]AAA (Stable)
INE905Y07118	**Non-convertible debenture**	Jan-09-2024	8.20%	Nov-21-2030	125	[ICRA]AAA (Stable)
INE905Y07134	**Non-convertible debenture**	Jun-27-2024	8.10%	May-28-2031	50	[ICRA]AAA (Stable)
NA^	**Non-convertible debenture**	NA	NA	NA	1,190	[ICRA]AAA (Stable)
NA^	**Commercial paper**	NA	NA	7-365 days	50	[ICRA]A1+

Source: Company; ^Yet to be placed

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Manushree Saggar
+91 124 4545 316
manushrees@icraindia.com

Rajat Kher
+91 124 4545 833
rajat.kher@icraindia.com

Sandeep Sharma
+91 22 6114 3419
sandeep.sharma@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches