March 11, 2025

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	-	500.00	[ICRA]AAA (Stable); assigned
Non-convertible debentures	4,500.00	4,500.00	[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	**15,200.00**	**15,700.00**	

**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)}[1]. The ratings consider the shared brand name and KMBL's representation 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 factors in the expectation that the company will continue to receive support from KMBL, if required.

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. 3,626 crore and its capital-to-risk weighted assets ratio (CRAR) stood at 32.6% as on December 31, 2024, supported by the sustained profitability. With the reduction in the portfolio due to higher prepayments from the loan book, KMIL's gearing (debt/net worth) declined to 2.3 times as on December 31, 2024 (3.5 times as on March 31, 2024). ICRA expects the gearing to remain below 3.5 times in a scenario of loan book growth. During the period of

[1] *For infrastructure bonds*

commercial paper (CP) borrowings for applying to initial public offerings (IPO) 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 including credit substitute of Rs. 10,144 crore, the gross and net stage 3 stood at 0.6% and 0.0%, respectively, as on December 31, 2024 (1.2% and 0.6%, respectively, as on March 31, 2023). Given the strong asset quality, credit costs have been low. 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's profitability remained healthy with profit after tax/average total assets (PAT/ATA) of 3.4% (annualised) in 9M FY2025 (3.5% in FY2024). It was supported by low operating expenses (0.7% of ATA) as well as low credit costs (0.4% of ATA) in 9M FY2025 (annualised). While credit costs increased in 9M FY2025 compared to the previous year due to the change in the expected credit loss (ECL) methodology and incremental slippages (which have been fully provided for), it remains low. The profitability in 9M FY2025 was also supported by gains on proprietary investments in IPOs. 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 59% (48% as on March 31, 2023) while corporate loans accounted for 41% (51% as on March 31, 2023) of the total loan book of Rs. 10,144 crore as on December 31, 2024. While the assets under management (AUM) grew by 28% in FY2024, it declined by 10% on a YoY basis as on December 31, 2024 due to high prepayments largely through project cash flows and lower disbursements compared to the previous year. The 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 41% of the total advances and 115% of the net worth as on December 31, 2024 (39% and 138%, respectively, as on March 31, 2023). Moreover, recoveries in this segment take longer compared to retail loans. 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. 1,659 crore and undrawn sanctioned banking lines of Rs. 558 crore as on December 31, 2024. This covers the scheduled debt obligations of Rs. 1,274 crore for the next six months. KMIL did not have any negative mismatches in the asset-liability management (ALM) profile as on December 31, 2024. It enjoys considerable financial flexibility as a part of the Kotak Group.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A deterioration in KMBL's credit profile or a decline in the strategic importance of KMIL to KMBL or in the expectation of support from the promoter could impact the ratings.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs)
Parent/Group support	Parent: Kotak Mahindra Bank Limited The ratings factor in the high likelihood of financial support from KMBL to KMIL, driven by reputational and strategic considerations.
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, 2024, KMBL had a network of 1,948 branches (excluding GIFT and DIFC) and its net advances stood at Rs. 3,76,075 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	FY2023	FY2024	9M FY2025^
Total income	909	1,424	1,165
Profit/(loss) after tax	340	475	343
Total assets	12,198	14,798	12,219
Return on assets (annualised)	3.1%	3.5%	3.4%
Gross gearing (times)	3.3	3.5	2.3
Gross stage 3	1.2%	0.4%	0.6%
CRAR	28.6%	26.9%	32.6%

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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Mar 11, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Non-convertible debentures programme	Long term	500.00	[ICRA]AAA (Stable)	-	-	-	-	-	-
Non-convertible debentures programme	Long term	2,000.00	[ICRA]AAA (Stable)	Mar-22-24	[ICRA]AAA (Stable)	-	-	-	-
Non-convertible debentures programme	Long term	2,500.00	[ICRA]AAA (Stable)	Oct-06-2023	[ICRA]AAA (Stable)	Nov-14-2022	[ICRA]AAA (Stable)	-	-
				Nov-27-2023	[ICRA]AAA (Stable)	-	-	-	-
				Mar-22-2024	[ICRA]AAA (Stable)	-	-	-	-
Commercial paper programme	Short term	7,000.00	[ICRA]A1+	Oct-06-2023	[ICRA]A1+	Aug-10-2022	[ICRA]A1+	Aug-13-2021	[ICRA]A1+
				Nov-27-2023	[ICRA]A1+	Nov-14-2022	[ICRA]A1+	-	-
				Mar-22-2024	[ICRA]A1+	-	-	-	-
Subordinated debt programme	Long term	200.00	[ICRA]AAA (Stable)	Oct-06-2023	[ICRA]AAA (Stable)	Aug-10-2022	[ICRA]AAA (Stable)	Aug-13-2021	[ICRA]AAA (Stable)
				Nov-27-2023	[ICRA]AAA (Stable)	Nov-14-2022	[ICRA]AAA (Stable)	-	-
				Mar-22-2024	[ICRA]AAA (Stable)	-	-	-	-
Commercial paper (IPO financing) programme	Short term	3,500.00	[ICRA]A1+	Oct-06-2023	[ICRA]A1+	Aug-10-2022	[ICRA]A1+	Aug-13-2021	[ICRA]A1+
				Nov-27-2023	[ICRA]A1+	Nov-14-2022	[ICRA]A1+	-	-
				Mar-22-2024	[ICRA]A1+	-	-	-	-

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: [Click Here]

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	8.1379%	Jun 23, 2026	88.50	[ICRA]AAA (Stable)
INE975F07IE6	**Non-convertible debentures**	Mar 14, 2023	8.1379%	Jun 23, 2026	25.00	[ICRA]AAA (Stable)
INE975F07IE6	**Non-convertible debentures**	Apr 18, 2023	8.1379%	Jun 23, 2026	100.00	[ICRA]AAA (Stable)
INE975F07IM9	**Non-convertible debentures**	Sep 27, 2023	8.0359%	Oct 06, 2026	230.00	[ICRA]AAA (Stable)
INE975F07IO5	**Non-convertible debentures**	Oct 26, 2023	8.2185%	Nov 27, 2026	300.00	[ICRA]AAA (Stable)
INE975F07IM9	**Non-convertible debentures**	Nov 13, 2023	8.0359%	Oct 06, 2026	50.00	[ICRA]AAA (Stable)
INE975F07IP2	**Non-convertible debentures**	Nov 13, 2023	8.1929%	Jan 28, 2027	175.00	[ICRA]AAA (Stable)
INE975F07IP2	**Non-convertible debentures**	Dec 06, 2023	8.1929%	Jan 28, 2027	200.00	[ICRA]AAA (Stable)
INE975F07IQ0	**Non-convertible debentures**	Dec 28, 2023	8.2366%	May 27, 2027	80.00	[ICRA]AAA (Stable)
INE975F07IM9	**Non-convertible debentures**	Mar 21, 2024	8.0359%	Oct 06, 2026	250.00	[ICRA]AAA (Stable)
INE975F07IP2	**Non-convertible debentures**	Mar 21, 2024	8.1929%	Jan 28, 2027	250.00	[ICRA]AAA (Stable)
INE975F07IR8	**Non-convertible debentures**	Mar 21, 2024	8.3774%	Jun 21, 2027	500.00	[ICRA]AAA (Stable)
INE975F07IS6	**Non-convertible debentures**	Mar 21, 2024	8.3721%	Aug 20, 2027	456.00	[ICRA]AAA (Stable)
Not yet placed	**Non-convertible debentures**	NA	NA	NA	2,295.50	[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)
INE975F14ZX6	**Commercial paper programme**	Feb 14, 2025	7.82%	Apr 16, 2025	150.00	[ICRA]A1+
Not yet placed	**Commercial paper programme**	NA	NA	NA	6,850.00	[ICRA]A1+
Not yet placed	**Commercial paper (IPO financing) programme**	NA	NA	NA	3,500.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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