July 30, 2021

Ess Kay Fincorp Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Principal Protected Market Linked Debentures (PP-MLD)	125.00	125.00	PP-MLD [ICRA]AA+(CE) (Stable); reaffirmed
PP-MLD	50.90	50.90	PP-MLD [ICRA]AA+(CE) (Stable); reaffirmed
Non-convertible Debentures (NCDs)	150.00	120.83	[ICRA]AA+(CE) (Stable); reaffirmed
Total	**325.90**	**296.73**	

Rating Without Explicit Credit Enhancement	[ICRA]A

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating action takes into account the structural features available in each transaction such that in the event of non-payment by Ess Kay Fincorp Limited (Ess Kay) of its expected repayments, the respective cover pools along with the cash collateral (if any) would be utilised to support the servicing of the rated instruments. The key structural features of the rated instruments are summarised below.

Instrument	Trust Name	Security Cover	Structural Feature
Rs. 125.00 crore PP-MLD	Elements 2021 CE MLD	1.30x cover pool ^	Pool to be assigned to the trust on the occurrence of predefined trigger events; post trigger events, all collections from the cover pool will be transferred to the Debenture Trustee of the rated MLDs
Rs. 50.90 crore PP-MLD	Northern Arc 2021 CE MLD Hemera	1.30x cover pool ^	
Rs. 120.83 crore NCDs	Vivriti Omega Trust II 2020	1.21x cover pool and Rs. 6-crore cash collateral (CC)	Pool has been assigned upfront to the trust; post trigger events, all collections from the cover pool along with the CC will be used to transfer to the Debenture Trustee of the NCDs

^ The cover pool requirement is calculated on the outstanding principal and accrued interest in case of PP-MLDs

The ratings also draw comfort from the established presence of Ess Kay in the used vehicle financing space and its stable asset quality despite the disruptions caused by the spread of the Covid-19 pandemic. Nonetheless, post any trigger event, the performance of the cover pool would be exposed to any further disruptions that may arise due to the pandemic.

Structure details, adequacy of credit enhancement and salient features of rated instruments

Details on the structure, adequacy of the credit enhancement and salient features of each rated instrument are available in ICRA's previous rationales.
Rs. 125.00 crore PP-MLD (Elements 2021 CE MLD):Click here
Rs. 50.90 crore PP-MLD (Northern Arc 2021 CE MLD Hemera): Click here
Rs. 120.83 crore NCD (Vivriti Omega Trust II 2020): Click here

Key rating drivers and their description

Credit strengths

Presence of cover pool to support servicing of the rated facility in the event of non-payment by entity – The primary obligation of meeting the MLD/NCD payments is on Ess Kay. However, if Ess Kay does not meet the expected payment on the MLDs/NCDs, the collections from the cover pool will be available to the Debenture Trustee. The principal as well as the interest on the MLDs/NCDs are promised to the NCD investors on the legal maturity date.

Stringent eligibility criteria for cover pool – The eligibility criteria of the cover pool for all the three instruments is stringent. Contracts at the time of assignment should be current. For Vivriti Omega Trust II 2020, the proportion of contracts which are delinquent more than 30 days should be less than 5% of the pool principal outstanding. For the Northern Arc 2021 CE MLD Hemera, the proportion of assets which are delinquent, but less than 30 days should be less than 10% of the pool principal outstanding. For the Elements 2021 CE MLD, the proportion of assets which are delinquent, but less than 30 days should be less than 5% of the pool principal outstanding.

Credit enhancement in the form of over-collateralisation and CC (for Vivriti Omega Trust II 2020) – Vivriti Omega Trust II 2020 has credit enhancement in the form of over-collateralisation and CC, which act as a buffer if the collections in the cover pool decline. Similarly, credit enhancement for the Northern Arc 2021 CE MLD Hemera and Elements 2021 CE MLD transactions is available in the form of over-collateralisation.

Credit challenges

Portfolio remains exposed to high geographical concentration mix – Notwithstanding the strong scale-up achieved by Ess Kay over the past few years, its scale of operations remains modest. Further, it has, over the years, expanded its reach to 7 states in India through a network of about 359 branches as on March 31, 2021. However, it remains a regional player with the home state of Rajasthan still accounting for 66% of the portfolio as on March 31, 2021. Nevertheless, single state concentration has moderated to 66% as of March 2021 from 94% (share of Rajasthan in the company's portfolio) in March 2014. The balance lending portfolio is primarily in Gujarat, Maharashtra, Madhya Pradesh and Punjab & Haryana.

Performance of the pool would be exposed to any prolonged economic slowdown caused by the pandemic – Borrowers are facing several challenges following the spread of Covid-19 throughout the country. These include the continuity of business operations and the possible adverse impact on the asset quality as the cash flows and economic activity have slowed down. Ess Kay's ability to navigate through the adversity and manage the impact on the business growth and the asset quality would remain critical from a rating perspective, going forward.

Liquidity position

For [ICRA]AA+(CE) (Stable)/PP-MLD [ICRA]AA+(CE) (Stable): Strong

The principal and the interest on the NCDs and PP-MLDs are promised to the lender on the legal final maturity. The cash flows from the cover pool, along with the CC for the NCDs, are expected to be comfortable to meet the debt servicing requirement in the event that the company is unable to meet the payments on the NCDs and PP-MLDs.

For the [ICRA]A rating without explicit credit enhancement: Adequate

The short to medium tenure of the loans extended by Ess Kay (average tenure of about 3.5 to 4 years) matches well with the weighted average tenure of the term facilities availed by the company and reflects positively in the asset-liability maturity (ALM) profile. Thus, Ess Kay's ALM profile, in the normal course of business, is characterised by positive cumulative mismatches across all buckets up to 1 year. Further, while collections dipped in Q1 FY2022 due to the impact of the second wave of the pandemic, it is noted that the company was carrying sufficient liquidity back-up as on March 31, 2021. The on-balance sheet liquidity of Rs. 753 crore (unencumbered cash & equivalents; 23% of borrowings outstanding) and the undrawn cash credit lines of about Rs. 59 crore are adequate to manage the debt servicing burden (both principal and interest) of about Rs. 527 crore up to September 2021. ICRA also notes that collections have recovered post the initial dip in Q1 FY2022 as reflected by the collection efficiency (excluding prepayments) of 96.4% in June 2021 compared to 89% in May 2021.

Rating sensitivities **(For NCDs rated [ICRA]AA+(CE) (Stable) and MLDs rated PP-MLD [ICRA]AA+(CE) (Stable))**

Positive factors – The ratings are unlikely to be upgraded in the near term.

Negative factors – The ratings could be downgraded on non-adherence to the key transaction terms envisaged at the time of assigning the same. The ratings could also come under pressure in case of a deterioration in Ess Kay's credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Rating Methodology for Non-Banking Finance Companies](#) [Covered Bond Transactions](#)
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Ess Kay was incorporated in 1994 and is registered with the Reserve Bank of India (RBI) as an asset financing non-banking financial company (NBFC-AFC). It primarily provides finance for used commercial vehicles, used multi-utility vehicles, cars, tractors and two-wheelers. Its corporate and registered office is in Jaipur, Rajasthan. The company started its own lending business in September 2010. Ess Kay has a track record of around 10 years of lending on its own books and of 26 years in the asset financing segment. The management also has significant experience in this field as a sourcing, collection and have good knowledge of the local market. Ess Kay operates through a network of 359 branches across 7 states – Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Punjab, Haryana and Chhattisgarh as of March 2021. However, the portfolio concentration remains high in Rajasthan at about 66%.

Key financial indicators (audited)

Ess Kay Fincorp Limited	FY2019	FY2020	FY2021
Total Income (Rs. crore)	381	582	691
PAT (Rs. crore)	63	79	91
Assets under Management (Rs. crore)	2,002	2,986	3,417
Gross Stage 3 (%)	4.2%	4.0%	4.0%
Net NPA (%)	2.6%	2.4%	1.9%

Source: *Company, ICRA research; All ratios as per ICRA calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021						Date & Rating in FY2020	Date & Rating in FY2019
					Jul 30, 2021	Mar 18, 2021	Mar 10, 2021	Feb 4, 2021	Feb 1, 2021	Dec 2, 2020	Nov 19, 2020	-	-
1	PP-MLD	Long term	125.0	125.0	PP-MLD [ICRA]AA+(CE) (Stable)	PP-MLD [ICRA]AA+(CE) (Stable)	Provisional PP-MLD [ICRA]AA+(CE) (Stable)	-	-	-	-	-	-
2	PP-MLD	Long term	50.9	50.9	PP-MLD [ICRA]AA+(CE) (Stable)	-	-	PP-MLD [ICRA]AA+(CE) (Stable)	Provisional PP-MLD [ICRA]AA+(CE) (Stable)	-	-	-	-
3	PP-MLD	Long term	9.1	0.0	-	-	-	Provisional PP-MLD [ICRA]AA+(CE) (Stable) Withdrawn	Provisional PP-MLD [ICRA]AA+(CE) (Stable)	-	-	-	-
4	NCD	Long term	120.83	120.83	[ICRA]AA+(CE) (Stable)	-	-	[ICRA]AA+(CE) (Stable)	[ICRA]AA+(CE) (Stable)	[ICRA]AA+(CE) (Stable)	Provisional [ICRA]AA+(CE) (Stable)	-	-

Complexity level of the rated instrument

Transaction Name	Instrument	Complexity Indicator
Elements 2021 CE MLD	Principal Protected Market Linked Debentures (PP-MLD)	Highly Complex
Northern Arc 2021 CE MLD Hemera	Principal Protected Market Linked Debentures (PP-MLD)	Highly Complex
Vivriti Omega Trust II 2020	Non-convertible Debentures (NCDs)	Highly Complex

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE124N07549	PP-MLD	Mar 09, 2021	8.90%*	Mar 09, 2026	125.0	PP-MLD [ICRA]AA+(CE) (Stable)
INE124N07523	PP-MLD	Jan 28, 2021	9.50%*	Jul 28, 2024	50.90	PP-MLD [ICRA]AA+(CE) (Stable)
INE124N07507	NCD	Nov 19, 2020	9.80%	Nov 19, 2024	120.83	[ICRA]AA+(CE) (Stable)

* *Additionally, step-up interest of 4.0% is applicable from date of issuance in case of trigger event*

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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

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