

KIFS Financial Services Limited

Name of Instrument/Facility	Amount In Rs. Crore	Rating Action (November 2016)
Bank Lines	25.00	[ICRA]BBB+ (stable); Assigned

ICRA has assigned the rating of [ICRA]BBB+ (pronounced ICRA triple B plus) to the Rs. 25 crore bank lines of KIFS Financial Services Limited (KIFS FSL). The assigned rating takes into account the combined financial and business profiles of KIFS FSL and its group companies, Khandwala Securities Pvt Ltd. (now known as Khandwala Trade Capital Private Limited), Khandwala International Private Ltd. and Khandwala Commercial Pvt. Ltd, given the common management and the multiple financial and operational linkages among the entities. The four companies together are referred as the Khandwala group, hereon.

The assigned rating factors in the company's parentage (74.41% of KIFS FSL is owned by the group) and the established franchisee of the Khandwala group given its presence of over three decades in capital markets related business. The rating also takes into account the strategic importance of KIFS FSL to the Khandwala group, given the integral nature of its services (LAS funding, margin funding and IPO financing) to the group's activities. The rating, however, remains constrained by the small size of KIFS FSL's loan portfolio (Rs. 88.31 crore as on March 31, 2016).

KIFS FSL is the NBFC arm of the Khandwala group and is mainly engaged in LAS and margin funding, primarily to clients of the group's broking business. In FY2016, KIFS FSL's loan book increased sharply to Rs. 88.31 crore from Rs. 42.32 crore as on March 31, 2015. The growth was largely on account of a sustained improvement in broking volumes and a sharp growth in the LAS book. The portfolio as on March 31, 2016 comprised of Rs. 46 crore of LAS funding and Rs. 33 crore of margin funding. The company's book however remains concentrated with its top 10 clients accounting for about 80% of the portfolio as on March 31, 2016. The company expects to grow its book to ~Rs. 120 crore by the end of FY2017. KIFS FSL's overall loan book as on March 31, 2016 was sufficiently secured by equity shares with a cover of about 2 times; however, the company had write-offs of ~Rs. 38 lakh in FY2016 in the promoter funding book. Going forward, the company's ability to maintain asset quality while growing its loan book would remain a key rating sensitivity.

KIFS FSL reported an 88% increase in interest income from Rs. 3.62 crore in FY2015 to Rs. 6.79 crore in FY2016 on account of the sharp rise in the size of its loan book. The company's yield on average loans moderated during FY2016 which led to a moderation in its net interest margins to 6.85% from 8.35% in FY2015. Given the operational support from group entities, the company's operating expenses (as a percentage of average total assets) remain low at 0.81% in FY2016 (vis-a-vis 1.04% in FY2015). The company's RoA moderated to 4.00% during FY2016 from 5.27% during FY2015.

KIFS FSL had a net worth of Rs. 23.19 crore as on March 31, 2016 (vis-à-vis Rs. 21.34 crore as on March 31, 2015). Its gearing levels increased from 1.12 as on March 31, 2015 to 2.90 as on March 31, 2016 on account to an increase in borrowings through ICDs from group companies (available at ~12% to KIFS FSL). The company has deployed adequate risk management systems, and maintains a list of approved securities eligible for funding. It determines the loan amount after applying margin haircuts for each of the scripts under consideration. For funds, the company has been entirely reliant of ICD from group companies however going forward, with increase in book size, the company's ability to raise funds from banks or FI's would remain a monitorable.

Group Profile

The Khandwala group, formed by the Khandwala brothers, started its equity broking business operations in 1987; the promoters set up KIFS Securities Limited, the flagship entity of the group in 1995. Currently, the group is engaged in stock broking, commodities broking, equity arbitrage, depository and portfolio management services.

Company Profile

KIFS Financial Services Limited (KIFS FSL), incorporated in February 1998, is a non-banking financial company registered with RBI as a loan company. KIFS FSL is a subsidiary of KIFS Commercial Private Limited – A Khandwala Integrated Venture, Ahmedabad. The company provides LAS funding, margin funding,



IPO/FPO funding and ICD funding. As on March 31, 2016, KIFS FSL had a net worth of Rs. 23.19 crore with a gearing of 2.90x times and a loan book of Rs. 88.31 crore.

Recent Results

In FY2016, KIFS FSL reported a net profit of Rs. 2.83 crore on an asset base of Rs. 93.80 crore as compared with a net profit of Rs. 1.88 crore in FY2015 on an asset base of Rs. 47.54 crore.

November 2016

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