

Karvy Financial Services Limited

Instrument	Amount (Rs. Crore)	Rating Action (December 2016)
Commercial Paper	400	[ICRA]A1+(SO)*/Reaffirmed
Long term bank lines (BASEL II)	1,500	[ICRA]A+(SO)*(stable)/Reaffirmed
Subordinated Debt Programme	30	[ICRA]A; put on watch with developing implications
Principle Protected NCD Programme	75	PP-MLD[ICRA]A; put on watch with developing implications
NCD Programme	50	[ICRA]A; put on watch with developing implications

* Rating backed by Guarantee by parent viz. Karvy Stock Broking Limited (KSBL)

ICRA has placed the rating “[ICRA]A” (pronounced ICRA A) assigned earlier to the Rs. 30 crore subordinate debt, Rs. 75 crore principle protected NCD and Rs. 50 crore NCD Programme of Karvy Financial Services Limited (KFSL) on rating watch with developing implications.

ICRA has also reaffirmed the ratings of [ICRA]A1+(SO) (pronounced ICRA A one plus Structured Obligation) to the Rs. 400 crore commercial paper programme and [ICRA]A+(SO)(stable) (pronounced ICRA A plus Structured Obligation) to the Rs 1,500 crores Long term bank lines of KFSL. These Structured Obligation (SO) ratings are based on the strength of the unconditional and irrevocable corporate guarantee provided by KFSL’s parent- Karvy Stock Broking Ltd (rated [ICRA]A+(stable)/[ICRA]A1+) for the timely payment of the principal along with the accrued interest on the due payment date and do not represent ICRA’s opinion on the general credit quality of the issuers concerned.

The rating action on the standalone ratings follows the recent announcement by KFSL on its intention to sell its retail lending book; comprising of loans against property, loans against gold and Small Commercial Vehicle financing and constituting 80% of the total portfolio as on March 31, 2016 while the balance 20%, which consists of corporate loans (secured by way of property and/or shares) would continue to be managed by KFSL. ICRA would continue to monitor the developments on this front and would take suitable rating action once more clarity emerges on the impact of the sale on the credit profile of the company.

Overall, the ratings take comfort from the long experience of Karvy Group in retail equity broking business, the group’s diversified revenue profile with growing contribution from data management and financing business, adequate capitalization, and comfortable asset quality and liquidity profile. While the rating factors in the group’s adequate risk management systems, it is constrained by the cyclical nature of Karvy Group’s primary business being dependent on the domestic capital market. ICRA has taken note of the diversification to non capital market businesses that are scalable and can support and provide stability to the group’s financial performance over the medium term.

While earlier KFSL’s portfolio largely consisted of capital market lending book, over the years the portfolio has diversified to include segments like loans against property (LAP) and gold loans. KFSL witnessed a robust growth in its loan portfolio over past 2 years, with its portfolio growing from Rs 1,661 crore in March-14 to Rs 2,233 crore in March-16, with the growth led by the loans against property segment (growth of 10% in FY2016; constituting 80% of portfolio) followed by Loan against gold constituting 12% total portfolio as of March-16. The company also provides loan against small commercial vehicles (~4% as on March-16). This follows the management’s strategy of offering multiple secured products to its target clientele, viz. the micro and small enterprises, rather than following a product specific approach of growth.

The company has maintained adequate capitalization profile with CRAR of ~18% as on Mar-16. The gearing remains moderate at about 4.8 times as on March 31, 2016 (5.07 times as on Mar-15). ICRA has taken note of the deterioration in the asset quality indicators specifically in the LAP and loans against shares segment with company reporting GNPA% and NNPA% of 3.14% and 2.81% respectively as on March 31, 2016 based on 150+past due basis.

With the shift in the portfolio towards relatively lower yielding products such as LAP and given the competitive pressures, the average yield on KFSL's loans reduced from 17.36% in FY2015 to 14.52% in FY2016. Although the cost of funds also declined during this period, albeit to a lower extent leading to compression in NIMs from 4.06% in FY2016 as compared to 6.49% in FY2015. This coupled with increased credit costs (0.06% in FY2015 to 0.37% in FY2016) on account of deterioration in asset quality lead to significant reduction in profitability (net profit in relation to average net worth) for the company from 10.61% for FY2015 to 2.94% for FY2016.

Company Profile

Karvy Financial Services Ltd

Karvy Financial Services Limited (KFSL) is a 100% subsidiary of Karvy Stock Broking Limited (through other group subsidiaries) and got its NBFC license in first quarter of FY09-10 and has started the lending operations in securities based lending, loan against gold, loan against commodity and loan against property. During FY2016, KFSL reported a net profit of Rs 11.60 crore on an income base of Rs. 352 crore as compared with a net profit of Rs 38.60 crore on an income base of Rs. 358 crore during FY2015.

Karvy Stock Broking Limited

KSBL is a part of the Hyderabad-based Karvy group of companies. The key promoters of the group are Mr. C. Parthasarathy, Mr. M.S.Ramakrishna and Mr. M. Yugandhar. In November 2007, ICICI Venture and Baring Asia PE acquired 30.95% stake in KSBL by buying the entire 20% equity held by Pacific Century Group and an additional 10.95% stake in the form of fresh equity. KCL, the promoter company acquired the stake of ICICI Venture in FY2016. KSBL is engaged in equity broking, depository operations, distribution of financial products, advisory services and wealth management.

On a consolidated basis, KSBL reported a net profit of Rs. 39.89 crore on total operating income of Rs. 1,010.17 crore in FY2016 as compared with a net profit of Rs. 30.69 crore on total operating income of Rs. 917 crore in FY2015.

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