

October 06, 2017

INFINA Finance Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	450	[ICRA]A1+; assigned
Commercial Paper Programme (IPO financing)	7,500	[ICRA]A1+; assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 450 crore commercial paper programme and Rs. 7,500 crore commercial paper programme (IPO financing) of INFINA Finance Private Limited (INFINA)1.

Rationale

The rating factors in the strong support enjoyed by INFINA by virtue of being an associate of the Kotak Group; Kotak Mahindra Capital Company Limited (in turn a wholly owned subsidiary of Kotak Mahindra Bank rated at [ICRA]AAA(stable)) holds 49.99% stake in the company while the balance is held by promoters through other closely held entities. The rating also takes into account the company's strong networth (Rs. 1,461 crore as of march 2017), robust capitalisation (CRAR of 94.97% as on March 31, 2017) and the considerable financial flexibility to raise funding at competitive rates given the status of being an associate of Kotak group. The rating further factors in the diversification in the revenue profile of the company and the reducing dependence on trading income. While assigning the rating ICRA has taken note of the concentration risk associated with the lending book and the inherent risks associated with the capital markets lending and trading business. The company's comfortable asset quality (GNPA% of 1.92% as on March 31, 2017) and adequate risk management systems and polices provides comfort.

Key rating drivers

Credit strengths

- **Strong support being a Kotak Group associate** - Kotak Mahindra Capital Company Limited holds 49.99% of the equity stake in the company as on March 31, 2017 while the balance being held by the closely held companies of the Kotak group promoters. Being an associate of the Kotak group, INFINA enjoys considerable financial flexibility to raise funding at competitive rates and also support is expected from the promoters as and when need arises. Any substantial change in the shareholding pattern of the company or in the credit profile of its shareholders would be a key rating sensitivity.
- **Comfortable asset quality** - The asset quality for the company remains comfortable with GNPA% of 1.92% which comprise of legacy accounts. INFINA follows risk management policies and processes which are similar to that of Kotak group. The company keeps adequate security cover in the loan against shares segment and sufficient margins while funding for IPOs. Further, INFINA follows robust underwriting mechanism which provides further comfort.

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

- **Robust capitalisation and strong liquidity profile** - As on March 31, 2017, INFINA had a strong net worth of Rs. 1,461 crore with the capital adequacy ratio of 94.97% significantly above the regulatory requirements. The company also has a significant trading book which can be liquidated if need arises. Further, INFINA, by virtue of being an associate of the Kotak group enjoys considerable financial flexibility to raise funding at competitive rates and also support is expected from the promoters as and when need arises.
- **Gradual diversification in the revenue profile with the scaling up of lending operations:** INFINA is mainly engaged in proprietary trading, lending against shares (including IPO financing) and unsecured loans and private equity funding to some extent. Though proprietary trading forms significant part of the total income (~45% for FY2017), the company has been gradually diversifying into other segments. Over the years, the company has significantly scaled up its lending operations with the interest income increasing from Rs. 44.63 crore in FY2015 to Rs. 124.52 crore in FY2017. The substantial increase in interest income has provided some diversity to the revenue profile with the share of interest income in the total income increasing from ~22% to ~45% in the same period.

Credit weaknesses

- **Volatility in the earnings profile given the linkages to capital markets for both trading and lending segment (loan against shares)** - Proprietary trading and interest income from loan against shares book are the two major source of income for INFINA. Both these sources contributed ~45% each in the total income of ~Rs. 275 crore during FY2017. These income sources remain exposed to the inherent volatility in the securities markets, led by factors including changes in yields, spreads and prices. However, INFINA's robust and effective risk management policies and processes replicated from the Kotak group provide comfort. Further, the company follows a long-short trading strategy which helps the company in partially mitigating the risks associated with trading in the equity capital markets.
- **Client concentration risks** - The top twenty exposures for INFINA form a sizeable proportion (~88% as on March 31, 2017) of the overall loan book. Given the high concentration and inherent riskiness of capital market exposures, the portfolio has high inherent vulnerability to any borrower or industry specific event which could result in a steep deterioration in asset quality indicators in case of any slippages.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

[ICRA's Approach for Rating Commercial Papers](#)

About the company

INFINA Finance Private Limited is a non-deposit taking NBFC involved in the activities of proprietary trading, loan against shares and IPO financing. It has also started private equity investments, though the scale of operations remains small. The net worth of the company was built in 2006 when certain strategic investments were divested with the company deriving large capital gains. The loan book as on March 31, 2017 stood at Rs. 442 crore.

During FY2017, INFINA's reported a PAT of Rs. 115 crore on a total income of Rs. 275 crore as compared to a PAT of Rs. 162 crore on a total income of Rs. 286 crore.

Key Financial Indicators (Audited)

	FY2016	FY2017
Total Revenue	286	275
Profit before tax	245	163
Profit after tax	162	115
Total portfolio	136	442
Total assets	1,468	1,859
% Tier 1	112.91%	94.87%
% CRAR	112.94%	94.97%
Gearing	0.08	0.26
% Net profit/Average total assets	10.34%	6.91%
% Return on net worth	12.86%	8.19%
% Gross NPAs	6.27%	1.92%
% Net NPAs	0.00%	0.00%

Amounts in Rs. crore

Source: INFINA; ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

Sr. No	Instrument	Current rating (FY2018)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	October 2017	FY2017	FY2016	FY2015
1	Commercial Paper Programme	Short Term	450	[ICRA]A1+; assigned	-	-	-
2	Commercial Paper Programme (IPO Financing)	Short Term	7,500	[ICRA]A1+; assigned	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1
Instrument Details**

ISIN No.	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme	NA	NA	7-365 days	450	[ICRA]A1+
NA	Commercial Paper Programme (IPO financing)	NA	NA	7-30 days	7,500	[ICRA]A1+

Source: INFINA

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About ICRA Limited:

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