

November 15, 2017

## Kotak Mahindra Prime Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme (IPO financing)	4,000	[ICRA]A1+; withdrawn
Commercial Paper Programme	9,000	[ICRA]A1+; outstanding
Non-convertible Debentures	251.90	[ICRA]AAA(stable); outstanding
Subordinated Debt Programme	654.10	[ICRA]AAA(stable); outstanding
Nifty Linked Debentures	41.25	PP-MLD[ICRA]AAA(stable); outstanding
Cash Credit and Term Loans	6,391	[ICRA]AAA(stable); outstanding

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has withdrawn the rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding for the Rs. 4,000 crore commercial paper programme (IPO financing) of Kotak Mahindra Prime Limited (KMPL)<sup>1</sup>. The rating has been withdrawn as the company has fully redeemed the instrument on maturity and there is no amount outstanding against the rated instrument.

ICRA also has a rating outstanding of [ICRA]AAA (pronounced ICRA triple A) for the Rs. 251.90 crore non-convertible debentures programme, Rs. 654.10 crore subordinated debt programme and Rs. 6,391 crore cash credit and term loans from banks of KMPL. ICRA also has a rating outstanding of PP-MLD[ICRA]AAA (pronounced Principal Protected Market Linked Debentures ICRA triple A) for the Rs. 41.25 crore Nifty linked debentures programme of KMPL. ICRA also has a rating outstanding of [ICRA]A1+ for the Rs. 9,000 crore commercial paper programme of KMPL. The outlook on the long term ratings is stable.

### Rationale

The ratings are supported by significant operational and financial synergies between KMPL and Kotak Mahindra Bank Limited (KMBL, rated [ICRA]AAA(stable)), the company's demonstrated ability of more than 20 years in managing auto-finance business through various economic cycles, its healthy asset quality in the core business segments (net NPA% of 0.36% as on June 30, 2017), healthy earnings profile (RoE of 12.74% for FY2017), adequate capitalisation (CRAR of 17.20% with Tier I of 15.55% as on March 31, 2017) and comfortable liquidity profile. ICRA has taken note of the concentration (given the large ticket size) and credit risks in the company's corporate loan portfolio especially in its commercial real estate (CRE) exposures. However, the robust credit-assessment process followed by the company and the adequate structural mechanisms in terms of security cover, exclusive charge over the underlying asset and escrow accounts to trap project cash flows, mitigate the risk to some extent. Overall, the ability of the company to grow the business volumes while maintaining control over asset quality especially in the other non-car finance segments would be the key rating sensitivities. Going forward, KMPL's rating would be sensitive to its parent KMBL's rating, given the strong business and operational linkages among the Kotak Group companies.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications

## Key rating drivers

### Credit strengths

- **Strong parentage of Kotak Group:** KMBL holds 51% stake in KMPL while the balance is held by Kotak Securities Limited (KSL) which in turn is a 100% subsidiary of KMBL. Consequently, KMPL enjoys strong financial and operational support from Kotak group, which in the past has included access to capital, management and systems and supervision by a strong board. KMPL also benefits from operational synergies with the group companies and groups' favorable experience in capital market related activities. Any dilution in the expected level of support to KMPL or change in the credit profile of its parent would be a key rating sensitivity.
- **Strong track record of managing auto finance business through various economic cycles:** Being in the auto finance business since 1996, KMPL is now a leading nation-wide car finance company and has strategic arrangements with various car manufacturers in India for being their preferred financier. The car loan segment (retail loans and dealer financing) continues to be the key business segment for KMPL, accounting for around 72% of its total loan portfolio as on March 31, 2017. KMPL's retail car loans portfolio (car loans and top-up personal loans) grew ~11% to Rs. 15,322 crore in FY2017 from Rs. 13,830 crore in FY2016 on the back of high growth in the industry while the dealer finance book remained stable at Rs. 2,855 crore as on March 31, 2017 (Rs. 2,877 crore as on March 31, 2016). KMPL continues to focus on the car finance segment, where its experience and strong dealer relationships have enabled it to maintain its market share despite the slowdown in the auto finance industry and increased competition from captive financiers.
- **Good asset quality indicators on the back of superior credit appraisal and monitoring systems:** KMPL's asset quality has been strong with gross NPAs at 0.86% and net NPA at 0.36% as on June 30, 2017 (0.78% and 0.40% as on March 31, 2016 and 0.86% and 0.36% as on March 31, 2017) on the back of strong collection and recovery performance. Credit losses (write offs + repo losses+ standard provisioning) remained low at 0.33% in FY2017 (0.29% in FY2016). The company's delinquencies in the car finance segment have continued to be low, reflecting its strong risk management systems. While ICRA takes into account the robust credit assessment process followed by the company and the adequate structural mechanisms in terms of security cover, exclusive charge over the underlying asset, and escrow accounts to trap project cash flows, it notes that the real estate financing book would remain susceptible to economic downturns and can have adverse impact on KMPL's performance.
- **Robust financial performance with negligible operating and credit costs:** The company's yields on advances declined to 11.72% in FY2017 from 12.42% during FY2016 on account of the increased competition in the car financing segment. However, the decline in yields in FY2017 was partially offset by the company's lower cost of funds resulting in only a marginal decline in net interest margins (4.7% in FY2017 as compared to 5.0% in FY2016). KMPL's operating costs and credit remained at similar levels in FY2017 as compared to FY2016. Overall, KMPL reported a marginal decline in net profitability with PAT as a % of average total assets of about 2.0% in FY2017 (2.3% in FY2016).
- **Comfortable capitalisation:** KMPL is well capitalised with a capital adequacy ratio of 17.20% (Tier I of 15.55% as on March 31, 2017 supported by regular capital infusions from the parent. The gearing levels are also moderate at 5.28 times as on March 31, 2017 (5.09 times as on March 31, 2016). Further, KMPL, by virtue of being a part of the Kotak Group enjoys considerable financial flexibility to raise long term funding at competitive rates and also support is expected from the parent as and when need arises. The company continues to have a comfortable liquidity profile with adequate unutilised bank lines.

### Credit weaknesses

- **High degree of dependence on institutional sources of financing:** Nearly 48% of the borrowing for KMPL is from mutual funds and insurance companies (around 40% of the borrowings as on March 31, 2016) displaying high reliance for the company on institutional sources for fund-raising. However, adequate unutilised bank lines and capital market advances (tenure less than 1 year) mitigate these concerns. ICRA does not expect any funding issues given KMPL's extensive relationships and access to funds over the last two decades.
- **Exposure to other non-car finance segments which are relatively risky segments:** The real-estate book remains exposed to concentration risks owing to the large ticket size and the high inherent risks associated with these loans. Moreover, recoveries in this segment take longer and are less likely than in case of retail loans. The capital market book remains exposed to the inherent volatility in the securities markets, led by factors including changes in yields, spreads and prices. However, the robust risk credit underwriting process followed by the company and the adequate structural mechanisms in terms of security cover and exclusive charge on the underlying assets provides comfort.

### 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

Kotak Mahindra Prime Limited (KMPL) was established as Kotak Mahindra Primus Limited in 1996 as a 60:40 joint venture between Kotak Mahindra Bank Limited (KMBL) and Ford Credit International (FCI). FCI exited from the venture in 2005, and subsequently the company was renamed Kotak Mahindra Prime Limited. At present, KMBL has a 51% shareholding in KMPL and the balance is held by Kotak Group Securities Limited. KMPL is a leading nation-wide car-finance company and has strategic arrangements with various car manufacturers in India for being their preferred financier. In addition to financing new and used cars, KMPL offers inventory funding and infrastructure funding to car dealers; extends loans against collateralised securities; and provides corporate advances to the customers of the Kotak Group.

**Key Financial Indicators (Audited)**

	<b>FY2016</b>	<b>FY2017</b>
Total Revenue	2,749	2,910
Profit before tax	773	788
Profit after tax	502	515
Total portfolio	22,262	25,121
Total assets	23,926	27,161
% Tier 1	15.63%	15.55%
% CRAR	18.24%	17.20%
Gearing	5.09	5.28
% Net profit/Average total assets	2.25%	2.02%
% Return on net worth	13.95%	12.74%
% Gross NPAs	0.78%	0.86%
% Net NPAs	0.40%	0.36%

*Amounts in Rs. crore*

*Source: KMPL; ICRA research*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:**

Sr. No.	Instrument	Current rating (FY2018)					Chronology of rating history for past 3 years				
		Type	Rated amount (Rs. crore)	Nov 2017	Nov 2017	Oct 2017	FY2017		FY2016	FY2015	
							Nov 2016	Sep 2016	-	Aug 2014	
1	Commercial Paper Programme (IPO financing)	Short Term	2,000	[ICRA] A1+; withdrawn	[ICRA] A1+	-	-	-	-	-	
2	Commercial Paper Programme (IPO financing)	Short Term	2,000	[ICRA] A1+; withdrawn	[ICRA] A1+	[ICRA] A1+	-	-	-	-	
3	Commercial Paper Programme	Short Term	9,000	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-	-	-	
4	Non-convertible Debentures	Long Term	251.90	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	Upgraded to [ICRA]AAA(stable) from [ICRA]AA+(stable)	
5	Subordinated Debt Programme	Long Term	654.10	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	Upgraded to [ICRA]AAA(stable) from [ICRA]AA+(stable)	
6	Nifty Linked Debentures	Long Term	41.25	PP-MLD [ICRA] AAA (stable)	PP-MLD [ICRA] AAA (stable)	PP-MLD [ICRA] AAA (stable)	PP-MLD [ICRA] AAA (stable)	PP-MLD [ICRA] AAA (stable)	PP-MLD [ICRA] AAA (stable)	Upgraded to PP-MLD[ICRA]AAA (stable) from PP-MLD[ICRA]AA+(stable)	
7	Cash Credit and Term Loans	Long Term	6,391	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	Upgraded to [ICRA]AAA(stable) from [ICRA]AA+(stable)	

**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](http://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	9,000	[ICRA]A1+
Unutilised	Non-convertible Debentures	-	-	-	186.90	[ICRA]AAA(stable)
INE916DA7EV2	Non-convertible Debentures	30-08-14	9.55%	20-08-19	65.00	[ICRA]AAA(stable)
Unutilised	Subordinated Debt Programme	-	-	-	178.30	[ICRA]AAA(stable)
INE916D08CI7	Subordinated Debt Programme	08-10-07	11.10%	23-04-18	19.1	[ICRA]AAA(stable)
INE916D08CJ5	Subordinated Debt Programme	29-02-08	10.00%	07-08-18	7.5	[ICRA]AAA(stable)
INE916D08CK3	Subordinated Debt Programme	15-05-08	10.40%	15-11-18	28.6	[ICRA]AAA(stable)
INE916D08CL1	Subordinated Debt Programme	19-06-08	10.70%	24-12-18	5	[ICRA]AAA(stable)
INE916D08CM9	Subordinated Debt Programme	14-07-08	11.00%	31-12-18	6.4	[ICRA]AAA(stable)
INE916D08CX6	Subordinated Debt Programme	29-06-10	10.10%	30-11-20	20	[ICRA]AAA(stable)
INE916D08DL9	Subordinated Debt Programme	25-03-11	10.50%	23-04-21	150	[ICRA]AAA(stable)
INE916D08DM7	Subordinated Debt Programme	31-05-11	10.70%	22-12-17	5	[ICRA]AAA(stable)
INE916D08DN5	Subordinated Debt Programme	31-05-11	10.80%	22-06-21	18.6	[ICRA]AAA(stable)
INE916D08DO3	Subordinated Debt Programme	30-06-11	10.80%	30-06-21	12	[ICRA]AAA(stable)
INE916D08DP0	Subordinated Debt Programme	23-06-11	10.80%	30-06-21	5	[ICRA]AAA(stable)

ISIN No.	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
INE916D08DQ8	Subordinated Debt Programme	23-09-11	11.00%	23-09-21	50	[ICRA]AAA(stable)
INE916D08DR6	Subordinated Debt Programme	28-09-11	11.25%	28-09-21	40	[ICRA]AAA(stable)
INE916D08DS4	Subordinated Debt Programme	25-09-12	10.40%	23-09-22	25	[ICRA]AAA(stable)
INE916D08DT2	Subordinated Debt Programme	21-12-12	10.50%	22-06-23	40	[ICRA]AAA(stable)
INE916D08DU0	Subordinated Debt Programme	15-01-13	9.90%	13-01-23	20	[ICRA]AAA(stable)
INE916D08DV8	Subordinated Debt Programme	16-01-13	9.90%	13-01-23	5	[ICRA]AAA(stable)
INE916D09024	Subordinated Debt Programme	30-01-08	10.00%	07-08-18	8.1	[ICRA]AAA(stable)
INE916D09032	Subordinated Debt Programme	11-06-08	10.70%	24-12-18	2.5	[ICRA]AAA(stable)
INE916D09040	Subordinated Debt Programme	26-06-08	11.00%	31-12-18	3	[ICRA]AAA(stable)
INE916D09057	Subordinated Debt Programme	05-05-10	10.10%	30-11-20	5	[ICRA]AAA(stable)
Unutilised	Nifty Linked Debentures	-	-	-	41.25	PP-MLD[ICRA]AAA(stable)
Unutilised	Cash Credit and Term Loans	-	-	-	6,391	[ICRA]AAA(stable)

Source: KMPL

## Contact Details

### Analyst Contacts

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Sahil Udani**

+91 22 6114 3429

[sahil.udani@icraindia.com](mailto:sahil.udani@icraindia.com)

**Akshay Kumar Jain**

+91 22 6114 3430

[akshay.jain@icraindia.com](mailto:akshay.jain@icraindia.com)

**Neha Parikh**

+91 22 6114 3426

[neha.parikh@icraindia.com](mailto:neha.parikh@icraindia.com)

### Relationship Contact

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

About ICRA Limited:

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-  
79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills  
Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B, Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500