India Factoring and Finance Solutions Private Limited

March 08, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Bank Lines	750	750	[ICRA]A1; upgraded from [ICRA]A2+
Total	**750**	**750**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the short-term rating to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 750 crore short-term bank lines of India Factoring and Finance Solutions Private Limited (IFFSPL)[1].

Rationale

The rating revision follows the gradual scale up of the business operations (CAGR of ~57% in funds in use in the last 18 months) along with improved profitability (return on net worth of 10.09% for H1 FY2018) and controlled asset quality (GNPA% of 6.14% and NNPA% of 0.30% as on September 30, 2017). The rating also factors in the capital support (total capital infusion of ~Rs. 180 crore since April 2014), operational synergies and management support received from the parent, FIMBank, a Malta-based specialised trade finance bank (stake of ~86% as on September 30, 2017). The rating also factors in KIPCO Group's (rated Baa3/stable/P-3 by Moody's Investors Service) majority ownership in FIMBank. KIPCO Group acquired a majority stake in FIMBank through its key operating entities, United Gulf Bank BSC and Burgan Bank SAK (rated A3/stable/P-2 by Moody's Investors Service). The rating, however, is constrained by the company's small scale of business (funds in use of ~Rs. 461 crore as on September 30, 2017) and limited growth options in the relatively small factoring market. The company's ability to recover from written-off assets and scale up the business profitably would remain a key monitorable.

Outlook: Not Applicable

Key rating drivers

Credit strengths

Strong parentage of FIMBank; demonstrated capital support – IFFSPL enjoys strong financial and management support along with operational synergies from the parent, FIMBank, a Malta-based specialised trade finance bank (stake of ~86% as on September 30, 2017). The parent has infused Rs. 180 crore of capital in IFFSPL since April 2014, thus helping the company to maintain a comfortable capital position. Further, foreign currency lines are also extended to IFFSPL by FIMBank, thus supporting the growth of the export factoring segment. The rating also factors in KIPCO Group's (rated Baa3/stable/P-3 by Moody's Investors Service) majority ownership in FIMBank. KIPCO Group acquired a majority stake in FIMBank through its key operating entities, United Gulf Bank BSC and Burgan Bank SAK (rated A3/stable/P-2 by Moody's Investors Service).

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Gradual scale up of business; focus on low risk export factoring segment – The company restructured its business model during CY2016 to focus on its core factoring business and exit from all non-core businesses, which led to a decrease in funds in use (FIU) to Rs. 244 crore as on March 31, 2016 from Rs. 615 crore as on March 31, 2015. Post this, the company is focusing on domestic factoring and two-factor export factoring, where the credit and country risks are borne by the import factor, and gradually scaled up its FIU to Rs. 461 crore as on September 30, 2017 (CAGR of ~53% in the funds in use in the last 18 months). Though domestic factoring comprises ~64% of the FIU as on September 30, 2017, the company has been incrementally targeting the low risk export factoring segment, which has increased its proportion of total FIU to 34% as on September 30, 2017 from 0% as on March 31, 2016. The risk on export factoring is low as there is a joint probability of default of the client and financial institutions. The company has discontinued reverse factoring and the proportion of this business in the portfolio declined to 2% as on September 30, 2017.

Comfortable capitalisation levels and liquidity profile – With the decrease in FIU, post restructuring and capital infusion of Rs. 180 crore by parent FIMBank since April 2014, IFFSPL's capitalisation remained comfortable with CRAR of 27.99% as on September 30, 2017. The gearing also remains comfortable at 2.56 times as on September 30, 2017. IFFSPL enjoys foreign currency lines from FIMBank, which provides additional comfort to the liquidity profile. Additionally, the company had significant sanctioned but unutilised bank lines to meet any short-term fund requirement. ICRA expects FIMBank to provide capital support to IFFSPL as and when the need arises.

Improved profitability indicators – IFFSPL's profitability improved during FY2017 and H1 FY2018 with growth in the overall portfolio, negative credit costs[2] (credit provision/ATA of -2.99% in FY2017 and -1.32% in H1 FY2018), controlled slippages and recoveries from written-off accounts. Consequently, the company reported profit after tax of Rs. 12.41 crore in FY2017 and Rs. 6.22 crore in H1 FY2018 compared with a net loss of Rs. 14.84 crore in FY2016 and Rs. 245.46 crore in FY2015. ICRA expects the company's profitability to improve, going forward, on the back of growth in its portfolio. However, its ability to stem fresh slippages and recover from delinquent accounts would remain a key monitorable.

Credit challenges

Limited scale of operations – Though IFFSPL has grown at a CAGR of 57% in the last 18 months, the scale of operations remains limited with FIU at Rs. 461 crore as on September 30, 2017. The FIU remains contracted on account of lack of regulations and consequent limited awareness about factoring among Indian corporate entities. However, with the enactment of the Factoring Regulation Act, 2011 and various other regulatory steps taken by the regulator and factoring players, awareness is increasing gradually, which, in turn, is expected to increase factoring business volumes. IFFSPL's ability to grow its portfolio while maintaining its profitability and asset quality will remain a key rating sensitivity.

Moderate asset quality indicators though adequately provisioned – IFFSPL's asset quality had deteriorated significantly in FY2015 with a change in the ageing policy (to adhere to IFRS to facilitate the consolidation of financials at the parent level), which resulted in a GNPA% of 44.88% as on March 31, 2015. However, with significant write-offs and controlled slippages, the asset quality has improved with GNPA% of 6.14% as on September 30, 2017. The company has provided adequately for delinquent accounts as evidenced by a provision coverage ratio of 95% and net NPA of 0.30% as on September 30, 2017. Going forward, the company's ability to expand its portfolio, while maintaining stable asset quality, will remain a key rating monitorable.

[2] There was a reversal in provisions in FY2017 and H1 FY2018 resulting in negative credit costs

Client concentration risks - The top 20 borrowers formed 81% of the company's overall loan book as on September 30, 2017. Consequently, the portfolio is vulnerable to any borrower or industry-specific event which could result in a steep deterioration in asset quality indicators. However, the concentration is expected to decline as the company expands its portfolio.

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

About the company:

India Factoring and Finance Solutions Private Ltd (IFFSPL) was incorporated in December 2009, with Malta-based FIMBank (49%), Punjab National Bank (PNB; 30%) and Italy-based Banca IFIS (10%) as the key shareholders. In March 2014, FIMBank acquired PNB's stake and became the majority shareholder with a 79% stake. With further capital infusion during FY2015 and FY2016, FIMBank's stake in the company increased to ~86% as on September 30, 2017. The company provides factoring services, encompassing finance and allied value-added services. The company's head office is in Mumbai, with branch offices in Delhi, Chennai and Bangalore. IFFSPL has a NBFC - Factor and Category III Authorised Dealer licence issued by the RBI.

Key financial indicators

	FY2016	FY2017	H1 FY2017	H1 FY2018
Net interest income	20.59	20.21	10.15	11.84
Operating income	22.35	23.88	12.87	16.05
Profit before tax	(14.84)	12.41	8.28	7.15
Profit after tax	(14.84)	12.41	7.37	6.22
Total portfolio (funds in use)	244.27	406.72	285.56	480.15
Net worth	107.80	120.21	115.17	126.43
Total assets	267.36	424.35	309.13	502.06
% CRAR	52.50%	31.63%	45.78%	27.99%
Gearing	1.02	2.26	1.30	2.56
% Net profit/average total assets (annualised)	(2.92%)	3.59%	5.11%	2.69%
% Return on net worth	(19.61%)	10.88%	13.22%	10.09%
% Gross NPAs	19.92%	7.46%	14.49%	6.14%
% Net NPAs	1.88%	0.48%	1.19%	0.30%
Net NPA/net worth	4.27%	1.61%	2.95%	1.14%

Amount is Rs. crore; all ratios are as per ICRA calculations
Source: Company; ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Sr. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Mar 2018	FY2017 Dec 2016	FY2016 Nov 2015	FY2015 Feb 2015
1	Short-term Bank Lines	Short Term	750	-	[ICRA]A1;	[ICRA]A2+;	[ICRA]A2; removed from rating watch with negative implications	[ICRA]A2@; revised from [ICRA]A1

@rating watch with negative implications

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Short-term Bank Lines	-	-	-	750	[ICRA]A1

Source: Company

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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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