

India Factoring and Finance Solutions Private Limited

August 14, 2018

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Short Term Bank Lines	750	[ICRA]A1
Total	750	

Material Event

India Factoring and Finance Solutions Private Limited has detected a fraud in Q4FY2018 amounting to Rs. 10.15 crore (8.3% of net worth of Rs. 122 crore as on March 31, 2018). Based on the analysis of financial statements, the company has made 100% provision for the exposure. Consequently, its FY2018 profits was lower at Rs. 1.99 crore (Rs. 10.20 crore for 9MFY2018). Based on ICRA's discussions with the company, forged invoices were raised by one of its client against which India Factoring provided funding in Q2FY2018. At the time of scheduled repayment in Q4FY2018, India Factoring discovered the fraud.

Impact of the Material Event

India factoring's FY2018 profit after tax was impacted by around Rs. 10 crores on account of making 100% provisions for the fraud. This led to the profit after tax (PAT) to reduce to Rs 1.99 crores in FY2018 (Rs. 10.20 crore in 9M FY2018). The impact on capitalization profile was minimal due to the low quantum of loss, this translated to 8.3% of the net worth of Rs. 122 crore.

The capitalization levels have a minimal impact of the fraud, and the liquidity of the company is not significantly impacted. The unutilized bank lines of Rs. 272 crore and cash & bank balances of Rs. 16 crore is sufficient to provide cover for any short term borrowing needs. Considering the above factors, ICRA retains the short-term credit rating at [ICRA] A1. Improvement in internal controls will remain a key item to monitor in the shorter term.

Steps taken to prevent frauds in future

A few steps have been taken by India Factoring to prevent such an instance of fraud in future –

1. India Factoring will reduce its disbursements to trader, and only onboard new clients who are manufacturers (for domestic factoring).
2. Red flag triggers created for invoices having a 25% deviation from last few recorded disbursements.
3. Setting of more stringent balance sheet credit parameters for clients.
4. More focus on export factoring cases where the credit risk is transferred to the import factor, and performance risk is mitigated by relatively larger clients.

The previous detailed rating rationale is available on the following link: [Click here](#)

Key Financial Indicators:

FOR THE PERIOD / YEAR ENDED (Rs. Crore)	Mar-16	Mar-17	Mar-18
Net Interest Income	20.59	20.21	24.62
Non-Interest Income / Fee Income	1.76	3.68	7.93
Operating Profit	(2.30)	2.06	7.14
Provisions-credit	12.54	(10.35)	5.15
PAT	(14.84)	12.41	1.99
Cost Income Ratio (reported)	110.31%	91.39%	78.07%
Yield on Average Loans	10.48%	9.55%	11.14%
Cost of Average Interest-Bearing Funds	12.36%	6.96%	5.87%
Lending Spreads	-1.88%	2.59%	5.27%
Gross Interest Spread	-1.49%	2.61%	5.02%
Net Interest Margin /Avg. Tot Assets	4.06%	5.84%	5.11%
Non- interest income / Avg. total Assets	0.35%	1.06%	1.65%
Credit Prov. & Write-offs / ATA	2.47%	-2.99%	1.07%
Operating Profit (net of credit provisions) /ATA	-2.92%	3.59%	0.41%
PBT /Average Total Assets	-2.92%	3.59%	0.41%
PAT /Average Net worth	-19.61%	10.88%	1.64%

Amounts in Rs. crore

Source: Company; ICRA research

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