

Karvy Financial Services Limited ^{Revised}

March 08, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Lines (Basel II)	174.36	174.36	[ICRA]BBB (Stable); reassigned from [ICRA]A+(SO)(Stable)
Sub Debt Programme	30.00	30.00	[ICRA]BBB (Stable); reassigned from [ICRA]A+(SO)(Stable)
Principle Protected NCD	2.90	2.90	PP-MLD[ICRA]A+(SO)(Stable); withdrawn
Total	207.26	207.26	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in the lending experience and comfortable capitalisation level of Karvy Financial Services Limited (KFSL). The ratings are, however, constrained by the limited track record of KFSL's new lending operations and its high operational and infrastructure building cost that exert pressure on its earnings profile. The company expects to grow its assets under management (AUM) to about Rs. 1,000 crore by March 2020. Ability to diversify the funding profile for maintaining good liquidity, improve the profitability and keep the asset quality and capital structure under control as the business expands, would be critical from a rating perspective.

Outlook: Stable

ICRA believes that KFSL has adequate capitalisation to supports its envisioned growth. The outlook may be revised to Positive if KFSL is able to grow at a steady pace and increase its scale of operations. The outlook may be revised to Negative if there is a significant weakening in the asset quality and earnings profile.

Key rating drivers

Credit strengths

Diversified revenue profile including businesses not linked to volatile capital markets – Incorporated in 1983 to conduct the registrar and transfer agency business, the Karvy Group has a diversified business profile within the capital market space. Karvy Stock Broking Limited (KSBL) and its wholly-owned subsidiaries are engaged in business operations including equity broking, commodity broking, retail lending and data management services. Some businesses like data management services have a relatively more stable income profile with no direct linkage to the performance of capital markets. ICRA notes that the sale of the company's registrar and transfer agency business and its SME lending assets reduces the stable revenue stream.

Adequate capitalisation for current scale of operations and expected disbursement plan – KFSL had a net worth of Rs. 406.38 crore and CRAR of 95.15% as on September 30, 2018. As the company sold a large part of its loan book in September 2017, it has repaid the bulk of its bank borrowings. Consequently, the gearing declined to 0.53 times as on March 31, 2018 from 3.71 times as on March 31, 2017. The gearing reduced further to 0.40 times (as on September 30, 2018) as the company did not disburse any new loans in H1 FY2019.

Credit challenges

Rebuilding the infrastructure post sale of substantial assets in NBFC business – KFSL sold Rs. 816 crore of its loan assets to Small Business Fincredit India Private Limited (SBFC). With the completion of the transaction in September 2017, the entire infrastructure, in terms of the 77 branches along with the entire team, has shifted to SBFC. KFSL will have to rebuild the team and set up the entire branch network as it plans to start the lending business again. Last year, the company set up a new corporate office, a central processing facility and it hired a team of over 150 personnel. It started disbursements in December 2018. As of January 31, 2019, the bulk of KFSL's lending (~74% of the total loan book of ~Rs. 368 crore) was to Karvy Group companies.

Ability to diversify funding profile and secure competitive cost of funds – Given the nascent stage of operations following the SBFC transaction, the company's funding profile currently comprises a few lenders. Considering its growth plans and the tight liquidity conditions, especially for NBFCs, KFSL's ability to diversify its resources and secure funding at competitive rates will be crucial.

High leverage at Group level to support subsidiaries – Gearing, at 2.63 times (as on September 30, 2018), was high on a consolidated basis for the broker (KSBL). This was on account of the high level of borrowings to support Karvy Data Management Services (KDMSL) and its subsidiaries as most of KSBL's subsidiaries are in early stages of operations. ICRA notes the reduction in KFSL's debt (Rs. ~164 crore, as of September 30, 2018 vs Rs. ~1,464 crore in March 2017) as it sold off its MSME and SME loan book to SBFC.

Liquidity position

As on November 28, 2018, the company has cumulative debt repayment obligations of Rs. 22.10 crore till May 2019. The company expects inflow of Rs. 272-crore inter-corporate deposits (ICDs), which will mature in March 2019. The company had cash balance of Rs. 58.29 crore as on September 2018. Considering the cash balance and expected cash inflow from ICDs near term liquidity of the company is adequate to meet its debt obligations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	We expect KSBL (rated [ICRA]A(Negative)/[ICRA]A1) to provide financial and operational support when required, given the shared brand name and KSBL's 100% ownership (includes direct and indirect ownership)
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Karvy Financial Services Limited is a fully-owned subsidiary of Karvy Stock Broking Limited (KSBL), directly and through other Group companies. It received its NBFC licence in Q1 FY2010. During the initial phase of operations, the company had a significant exposure to capital markets through products such as loans against shares and commodities, and margin funding, which was largely done in conjunction with the broking and commodities arms of the Group. In FY2017,

the company sold a substantial part of its assets to SBFC and transferred most of its employees and the entire branch network and infrastructure facilities to the latter.

During the last year, the company set up a new office, a central processing facility as well as a new team and commenced disbursements in December 2018.

KFSL reported a net profit of Rs. 11.76 crore on a total asset base of Rs. 661.97 crore as on March 31, 2018 compared to a loss of Rs. 29.67 crore on a total asset base of Rs. 1,915.85 crore in FY2017. In H1 FY2019, the company reported a loss of Rs. 0.33 crore on a total asset of Rs. 613.59 crore.

Key financial indicators (standalone)

Parameters	31-Mar-17	31-Mar-18	30-Sep-18 (Provisional)
Interest Income	270.94	141.76	25.92
Interest Expense	210.63	111.96	10.84
Net Interest Income	60.33	29.82	15.08
Non-interest Income / Fee Income	9.29	5.51	29.80
Operating Income	69.62	35.33	44.88
Operating Expense	77.87	56.48	22.79
Operating Profit	-8.25	-21.15	22.10
Provisions-Credit	32.62	220.61	18.95
Operating Profit (Net of Provisions)	-40.86	-241.76	3.15
Net Profit on Sale of Securities and Assets	0.02	261.94	0.00
Profit before Tax (PBT)	-40.85	20.18	3.15
Profit after Tax (PAT)	-29.67	11.76	-0.33
Average Total Assets	2,203.98	1,288.91	637.78
Avg. Earning Assets	2,136.03	1,184.01	519.00
Net Worth	394.95	406.70	406.38
Total Assets	1,915.85	661.97	613.59

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2019	FY2018			FY2017	FY2016
				Mar-19	Feb-18	Oct-17	Dec-16	Sep-15	
1 Subordinated Debt Programme	Long term	30	30	[[ICRA]BBB (Stable); reassigned	Provisional [ICRA] A+ (SO) (stable) confirmed as final	Provisional [ICRA] A+ (SO) (stable) reassigned from [ICRA]A (Watch with Developing Implications)	[ICRA]A; put on Watch with Developing Implications	[ICRA]A (stable)	
2 Principal Protected NCD Programme	Long term	2.9	2.9	PP-MLD [ICRA] A+ (SO) (Stable); withdrawn	Provisional PP-MLD [ICRA] A+ (SO) (stable) confirmed as final	Provisional PP-MLD [ICRA] A+ (SO) (stable) **; reassigned from PP-MLD [ICRA]A (Watch with Developing Implications)	PP-MLD [ICRA]A; put on Watch with Developing Implications	PP-MLD [ICRA]A (stable)	
3 Long-term Bank Lines	Long term	174.36	174.36	[[ICRA]BBB (Stable); reassigned	[ICRA]A+ (SO) (stable)	[ICRA] A+ (SO) (stable), Reaffirmed	[ICRA]A+ (SO) (stable)	[ICRA]A+ (SO) (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

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Bank Lines	Apr-14	NA	Oct-20	174.36	[ICRA]BBB (Stable)
INE308L07450	Principal Protected Market Linked Debenture Programme	6-Jan-15	CNX Nifty Linked	29-Jun-18	1.20	PP-MLD [ICRA] A+ (SO) (Stable); withdrawn
INE308L07492	Principal Protected Market Linked Debenture Programme	10-Feb-15	CNX Nifty Linked	5-Jun-18	1.70	PP-MLD [ICRA] A+ (SO) (Stable); withdrawn
INE308L08011	Subordinated Debt Programme	12-Feb-15	15.60%	11-May-20	30.00	[ICRA]BBB (Stable)

Source: Karvy Financial Services Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Corrigendum

Rationale dated March 08, 2019 has been revised with changes as below:

- Revision Re section on “Summary of rating actions” page 1: Total of current rated amount revised to Rs. 207.26 crore

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