



## India Factoring and Finance Solutions Pvt. Ltd.

Instrument	Amounts(in Rs crore )	Rating Action
		<b>February 2015</b>
Short Term Bank Lines	1,000 (reduced from 1,050)	Revised to [ICRA]A2@ from [ICRA]A1
@ - Under rating watch with negative implications		

ICRA has revised the rating outstanding on the Rs. 1,000 crore (reduced from Rs. 1,050 crore) Short Term Bank Lines of India Factoring and Finance Solutions Pvt. Ltd. (IFFSPL) from [ICRA]A1 (Pronounced ICRA A one) to [ICRA]A2 (Pronounced ICRA A two). The rating has been placed on rating watch with negative implications.

The rating revision follows the deterioration witnessed in IFFSPL's reported asset quality indicators during FY 2014 and further in YTD FY2015, having a cascading impact on the overall profitability and solvency of the company. The Gross NPA numbers of IFFSPL witnessed a sharp deterioration from 8.80% as on March 2014 to 27.31% as on September 2014, and further to 40.48% as on December 2014. The deterioration is partly on account of revision in the ageing policy of the company and partly due to weakening of asset quality indicators on the back of challenging macroeconomic environment. Accordingly, the increased credit provisioning requirement has adversely affected the profitability, with IFFSPL reporting a net loss of Rs. 239 crore in first 9 months of FY2015 (vis-à-vis net profit of Rs. 5.32 crore in FY2014), and thus has resulted in erosion of net worth. Nevertheless, ICRA has taken note of the change in shareholding of the company, with FIMBank – a specialized trade finance bank in Malta – acquiring additional 30% stake in IFFSPL from an existing investor, Punjab National Bank (PNB) in March 2014 through its wholly owned subsidiary and thus holding a controlling stake of 79% in IFFSPL. The rating also noted that FIMBank is now part of the KIPCO group (rated Baa3/negative/P-3 by Moody's Investors Service) which acquired majority stake in FIMBank through its key operating entities namely United Gulf Bank BSC and Burgan bank SAK (rated A3/stable/D+/P-2 by Moody's Investors Service). Following the change in ownership structure, IFFSPL could benefit from the increased operational synergies on the back of greater sharing of underwriting and risk management practices, technical, operational and financial support extended by the parent, over medium to long term. In order to support the network, the parent viz. FIMBank has extended a capital support to the tune of Rs. 89 crore to IFFSPL in February 2015, however additional capital support would be required to meet the regulatory CRAR levels. ICRA expects the parent, viz. FIMBank to extend a timely capital support to IFFSPL to meet the regulatory capital adequacy requirements; lack of this could trigger a further downgrade of the rating.

The total Funds in Use (FIU) for the company grew by ~11% from Rs. 731.54 crore as on March 2013 to Rs. 811.99 crore as on March 2014 primarily driven by a growth in Reverse/Vendor Factoring to 28% of total portfolio as on Mar-14 (15% as on March 2013). However, the FIU witnessed a de-growth in FY2015 to Rs. 694 crore as on December 2014, due to weak operating environment and the company undergoing consolidation by exiting some accounts and taking selective new exposures. It should be noted that the cases of Reverse/Vendor Factoring, which are inherently riskier than standard/domestic factoring, are adequately collateralized mainly by Bank Guarantees which makes them less risky. The LC discounting book of the company remained negligible at ~1% as on December 2014.

Gross income levels of the company reduced in FY2015 due to sluggish growth with Net Interest Margins(NIMs) declining to ~2.45% of Average Total Assets (ATA) for 9M FY2015 (from ~7.11% during FY2014) as yields on loans declined sharply to ~9.82% (from 14.26% in FY2014) and Cost of funds remained high at ~10.85% (as against 10.55% during FY2014). With the increase in slippages in H1 FY2015, the incremental provisions for the NPAs increased from ~Rs. 39 crore during FY2014 to ~Rs. 104 crore during H1 FY2015. Moreover, the reported Capital Adequacy Ratio (CAR) of the company has declined to 15.69% as on September 2014, (vis-à-vis 22.96% as on Mar-14) as compared to the regulatory requirement of 15%. However, in Q3 FY2015, IFFSPL made substantial provisions to the tune of Rs. 206 crore against the Gross NPAs. While the increased provisions helped IFFSPL in sharp reduction in their Net NPAs (Rs. 36 crore i.e. 5.16% of Net Advances as on



December 2014), it also led to erosion of net worth of the company. Further, the company also reversed the Deferred Tax Assets pertaining to past NPA provisions (amounting to ~Rs. 43 crore), which negatively impacted the profitability for Q3 FY2015.

The ratings have been put on watch with negative implications as ICRA will closely monitor immediate steps being initiated to shore up the company's capital. The quantum and timeliness of support from the parent and ability of IFFSPL to improve the internal accruals while keeping its credit costs under control would have a critical bearing on its credit profile.

### **Company Profile**

India Factoring and Finance Solutions Pvt Ltd (IFFSPL) was incorporated in December 2009 with Malta based FIMBank (49%), Punjab National Bank (30%), Italy based Banca IFIS (10%) and ESOP Trust and others (11%) as the shareholders. In March 2014, FIMBank bought out PNB's stake becoming the majority shareholder with 79% stake. The company provides factoring and forfaiting services, encompassing finance and allied value added services. IFFSPL commenced its operations from November 2010. The company has its head office is located in Mumbai, with branch offices situated at Delhi, Chennai, Bangalore, Kolkata, Hyderabad, Pune and Ahmedabad. IFFSPL has been granted the NBFC- Factor license by RBI.

IFFSPL reported a net profit of Rs. 3.87 crore on a total income of Rs. 122.72 crore during FY2014 as compared to a net profit of Rs. 2.68 crore on a total income of Rs. 115.88 crore during FY2013. The company reported a Net Loss of Rs. 239 crore on a total income of Rs. 61.04 crore during first 9 months of FY2015.

**February 2015**

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