August 13, 2021

Kotak Mahindra Prime Limited: [ICRA]A1+ assigned to Rs. 6,500-crore CP (IPO financing) programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Commercial Paper (IPO financing) Programme^	-	6,500.00	[ICRA]A1+; assigned
Commercial Paper Programme	9,000.00	9,000.00	[ICRA]A1+; outstanding
Non-convertible Debentures	2,751.90	2,751.90	[ICRA]AAA(Stable); outstanding
Subordinated Debt Programme	790.90	790.90	[ICRA]AAA(Stable); outstanding
Nifty Linked Debentures	41.25	41.25	PP-MLD[ICRA]AAA(Stable); outstanding
Long-term Bank Lines – Unallocated	6,391.00	6,391.00	[ICRA]AAA(Stable); outstanding
Total	**18,975.05**	**25,475.05**	

**Instrument details are provided in Annexure-1*

^Assigned for application on proprietary account

Rationale

The ratings are supported by the operational and financial synergies between Kotak Mahindra Prime Limited (KMPL) and Kotak Mahindra Bank Limited (KMBL; rated [ICRA]AAA(Stable)), the company's demonstrated ability of more than 20 years of managing the auto finance business through various economic cycles, its healthy earnings profile and comfortable capitalisation as well as liquidity profile.

ICRA has also 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. Further, the spread of the Covid-19 pandemic and the resultant slowdown in economic activity have led to a deterioration in the asset quality of KMPL's vehicle finance loan book. However, the strong credit assessment process followed by the company and its track record in managing cycles in the financing industry provides comfort. Given the measured loan book growth, KMPL does not have any near-term capital infusion requirements though ICRA expects KMBL to infuse capital if required. Overall, KMPL's ability to control the asset quality and maintain good profitability would be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Strong parentage – KMBL holds a 51% stake in KMPL while the balance is held by Kotak Securities Limited (KSL; rated [ICRA]AAA(Stable)/[ICRA]A1+), which, in turn, is a 100% subsidiary of KMBL. Consequently, KMPL enjoys strong financial and operational support from the Kotak Group, which, in the past, has comprised access to capital, management and systems and supervision by a strong board. KMPL also benefits from operational synergies with the Group companies as well as the Group's favourable experience in managing corporate relationships.

KMPL is comfortably capitalised with a capital adequacy ratio of 29.58% (Tier I of 28.34%) as on March 31, 2021, supported by strong profit accretion. The gearing moderated to 2.21 times as on March 31, 2021 from 2.95 times as on March 31, 2020 with the accumulation of internal accruals and lower borrowings, given the slowdown in loan disbursements. The moderation in the gearing was also attributable to the fair value adjustments of KMPL's stake in Kotak Group companies, leading to an increase in the net worth by Rs. 290 crore in FY2020 and Rs.206 crore in FY2021.

Given the measured loan book growth, KMPL does not have any near-term capital infusion requirements though capital support is expected from the parent as and when required. Further, by virtue of being a part of the Kotak Group, KMPL enjoys considerable financial flexibility in raising long-term funds at competitive rates. The company continues to have an adequate liquidity profile with sufficient unutilised bank lines and no material asset liability mismatches.

Healthy earnings profile; though profitability slightly impacted by higher credit cost – KMPL's loan book declined by 16% to Rs.21,789 crore as on March 31, 2021 from Rs. 24,624 crore as on March 31, 2020. The vehicle finance loan book (72% of loan book as on March 31, 2021) declined 10%, while the corporate loan book declined 16% in FY2021. Despite the lower scale of operations, KMPL's net interest income (NII) remained stable at Rs. 1,192 crore in FY2021 compared to Rs. 1,223 crore in FY2020 primarily due to the higher net interest margin (NIM). NIMs improved to 4.08% in FY2021 from 3.98% in FY2020 due to the steeper reduction in the average cost of borrowings compared to the average lending rates. However, credit cost increased to 1.07% in FY2021 from 0.87% in FY2020 due to higher slippages in the vehicle finance loan book because of the pandemic.

Consequently, KMPL reported a profit after tax (PAT) of Rs. 519 crore (return on average total assets (RoA) of 1.78%) in FY2021 compared to a PAT of Rs. 585 crore (RoA of 1.86%) in FY2020. ICRA expects KMPL's profitability to remain vulnerable to the disruptions caused by the pandemic. The company's ability to sustain its profitability, given the continued weakness in the operating environment amid the pandemic, remains to be seen.

Credit challenges

Asset quality remains vulnerable to slippages in vehicle segment and concentration in non-car finance segment – KMPL's net stage 3 assets / gross non-performing assets (NPAs) increased to 4.30% as on March 31, 2021 from 1.80% in March 2020 due to the increase in the slippages in the vehicle finance book coupled with the contraction of the loan book. The collection efficiency dropped in Q1 FY2021 due to the pandemic related lockdown. However, post unlock in August 2020, the collection efficiency started improving and led to the reversal of the overdues. The second wave of the pandemic disrupted the business environment again, resulting in to rise in delinquencies in Q1 FY2022.

ICRA notes that KMPL has augmented its provisioning buffer across the loan book with the expected credit loss (ECL) cover at 3.82% as on March 31, 2021 (2.23% as on March 31, 2020). Further, the comfortable capitalisation profile is expected to help maintain a comfortable solvency ratio despite the likely increase in slippages. ICRA also takes comfort from KMPL's long and successful track record in the vehicle finance segment and stringent risk management processes in stabilising the asset quality.

ICRA believes KMPL's loan book is vulnerable to the disruptions caused by the pandemic and the concentration in the corporate loan book (given the chunky exposures). Advances to the top 20 largest borrowers formed 21% of the total loan book as on March 31, 2021 compared to 26.13% as on March 31, 2020. However, KMPL's strong credit underwriting process and adequate structural mechanisms, in terms of security cover and exclusive charge on most of the underlying assets and escrow accounts to route project cash flows, provide comfort.

Liquidity position: Adequate

As on July 31, 2021, the company had unencumbered cash and cash equivalents of Rs. 2,368 crore and sanctioned and undrawn banking lines of Rs. 2,681 crore. This is adequate to meet the scheduled debt obligations of Rs. 4,420 crore for the next four months. KMPL did not have any negative mismatches in the asset liability management (ALM) as on June 30, 2021 as per its regulatory filing of Structural Liquidity Statement (SLS). ICRA notes that the company enjoys considerable financial flexibility as a part of the Kotak Group.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A material change in the expected level of support from the parent or a material deterioration in the credit risk profile of the parent could warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Non-Banking Finance Companies Implicit parent or group support
Parent/Group Support	Parent: Kotak Mahindra Bank Limited (rated [ICRA]AAA(Stable) KMBL is the ultimate holding company of KMPL, with a direct and indirect stake of 100%. KMPL enjoys strong financial and operational support from the Kotak Group, which, in the past, has comprised access to capital, management and systems and supervision by a strong board. KMPL also benefits from operational synergies with the Group companies as well as the Group's favourable experience in capital market related activities.
Consolidation/Standalone	Standalone

About the company

Kotak Mahindra Prime Limited 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 the venture in 2005, and the company was subsequently renamed Kotak Mahindra Prime Limited. At present, KMBL has a 51% shareholding in KMPL and the balance is held by Kotak Securities Limited, which is a wholly-owned step-down subsidiary of KMBL.

KMPL is one of the leading nationwide car finance companies and has strategic arrangements with various car manufacturers in India as their preferred financier. In addition to financing new and used cars, KMPL offers inventory funding and infrastructure funding to car dealers. It also continues to service loans against the collateralised securities of its existing customers and provides corporate advances to the customers of the Kotak Group. The company has a network of 114 branches across the country, supported by direct market associates, brokers and agencies for distribution.

Key financial indicators (audited)

KMPL	FY2019	FY2020	FY2021
Total income (Rs. crore)	3,203	3,202	2,592
Profit / (loss) after tax (Rs. crore)	590	585	519
Net worth (Rs. crore)	6,548	7,423	8,146
Loan book (Rs. crore)	28,267	24,624	21,789
Total assets (Rs. crore)	32,477	30,510	27,833
Return on assets (%)	1.84%	1.86%	1.78%
Return on net worth (%)	9.61%	8.38%	6.67%
Gross gearing (times)	3.80	2.95	2.21
Gross stage 3 (%)	1.23%	1.80%	4.30%
Net stage 3 (%)	0.54%	0.82%	2.09%
Solvency (Net stage 3/Net worth)	2.30%	2.79%	5.38%
CRAR (%)	19.66%	24.45%	29.58%

Source: *Company, ICRA Research; All ratios as per ICRA calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2022) Type	Amount Rated (Amount in Rs. crore)	Amount Outstanding (Amount in Rs. crore)	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019	
					Aug 13, 2021	Dec 04, 2020	Mar 09, 2020	Nov 07, 2019	Jun 10, 2019	July 12, 2018	May 04, 2018
1	Commercial Paper Programme (IPO financing)	Short Term	6,500.00	NA	[ICRA] A1+	-	[ICRA]A1 +	-	-	-	[ICRA] A1+
2	Commercial Paper Programme	Short Term	9,000.00	6,890.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
3	Subordinated Debt Programme	Long Term	790.90	490.60	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
4	Non-convertible Debentures	Long Term	2,751.90	2,076.00	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
5	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)	PP-MLD [ICRA] AAA (Stable)
6	Cash Credit and Term Loans	Long Term	6,391.00	-	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper Programme (IPO financing)	Very Simple
Commercial Paper Programme	Very Simple
Subordinated Debt Programme	Very Simple
Non-convertible Debentures	Very Simple
Nifty Linked Debentures	Not Applicable
Cash Credit and Term Loans	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
INE916D14Z89	Commercial Paper Programme	August 6, 2021	5.25	August 13, 2021	1,650.00	[ICRA]A1+
INE916D14U35	Commercial Paper Programme	September 18, 2020	4.45	August 17, 2021	400.00	[ICRA]A1+
INE916D14V67	Commercial Paper Programme	December 14, 2020	3.80	August 30, 2021	200.00	[ICRA]A1+
INE916D14W90	Commercial Paper Programme	January 29, 2021	4.25	September 6, 2021	300.00	[ICRA]A1+
INE916D14Z06	Commercial Paper Programme	June 28, 2021	3.65	September 22, 2021	50.00	[ICRA]A1+
INE916D14Y31	Commercial Paper Programme	April 22, 2021	4.05	October 5, 2021	150.00	[ICRA]A1+
INE916D14X65	Commercial Paper Programme	February 10, 2021	4.40	November 8, 2021	200.00	[ICRA]A1+
INE916D14U92	Commercial Paper Programme	November 24, 2020	3.95	November 24, 2021	200.00	[ICRA]A1+
INE916D14V42	Commercial Paper Programme	December 10, 2020	4.00	November 29, 2021	250.00	[ICRA]A1+
INE916D14V42	Commercial Paper Programme	December 21, 2020	4.00	November 29, 2021	200.00	[ICRA]A1+
INE916D14V91	Commercial Paper Programme	December 18, 2020	4.00	December 6, 2021	90.00	[ICRA]A1+
INE916D14W25	Commercial Paper Programme	January 11, 2021	4.10	January 11, 2022	600.00	[ICRA]A1+
INE916D14W33	Commercial Paper Programme	January 12, 2021	4.10	January 12, 2022	250.00	[ICRA]A1+
INE916D14X73	Commercial Paper Programme	February 11, 2021	4.55	February 11, 2022	500.00	[ICRA]A1+
INE916D14X73	Commercial Paper Programme	February 12, 2021	4.55	February 11, 2022	100.00	[ICRA]A1+
INE916D14X73	Commercial Paper Programme	February 15, 2021	4.55	February 11, 2022	50.00	[ICRA]A1+
INE916D14Y98	Commercial Paper Programme	June 25, 2021	4.15	February 22, 2022	150.00	[ICRA]A1+
INE916D14Z71	Commercial Paper Programme	August 5, 2021	3.95	March 7, 2022	100.00	[ICRA]A1+
INE916D14Y56	Commercial Paper Programme	May 27, 2021	4.35	April 15, 2022	225.00	[ICRA]A1+
INE916D14Y64	Commercial Paper Programme	June 14, 2021	4.30	June 6, 2022	325.00	[ICRA]A1+
INE916D14Z63	Commercial Paper Programme	August 4, 2021	4.20	June 21, 2022	200.00	[ICRA]A1+
INE916D14Z63	Commercial Paper Programme	August 5, 2021	4.20	June 21, 2022	200.00	[ICRA]A1+
INE916D14Z14	Commercial Paper Programme	July 6, 2021	4.40	July 6, 2022	500.00	[ICRA]A1+
Not Yet Placed	Commercial Paper Programme	NA	NA	7-365 days	2,110.00	[ICRA]A1+
Unutilised	Non-convertible Debentures	-	-	-	675.90	[ICRA]AAA(Stable)
INE916DA7PV8	Non-convertible Debentures	July 10, 2018	8.80%	December 29, 2021	645.00	[ICRA]AAA(Stable)
INE916DA7EV2	Non-convertible Debentures	August 20, 2014	9.55%	August 20, 2019	65.00	[ICRA]AAA(Stable)
INE916DA7PZ9	Non-convertible Debentures	August 16, 2018	8.75%	Sept 28, 2021	414.00	[ICRA]AAA(Stable)
INE916DA7QF9	Non-convertible Debentures	June 10, 2019	8.08%	December 28, 2022	500.00	[ICRA]AAA(Stable)

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
INE916DA7QG7	Non-convertible Debentures	October 17, 2019	7.64%	February 23, 2023	452.00	[ICRA]AAA(Stable)
Unutilised	Subordinated Debt Programme	-	-	-	300.30	[ICRA]AAA(Stable)
INE916D08DX4	Subordinated Debt Programme	Dec 7, 2017	8.25%	Dec 7, 2027	100.00	[ICRA]AAA(Stable)
INE916D08CX6	Subordinated Debt Programme	May 6, 2010	10.10%	November 30, 2020	20.00	[ICRA]AAA(Stable)
INE916D08DL9	Subordinated Debt Programme	March 25, 2011	10.50%	April 23, 2021	150.00	[ICRA]AAA(Stable)
INE916D08DN5	Subordinated Debt Programme	May 31, 2011	10.80%	June 22, 2021	18.60	[ICRA]AAA(Stable)
INE916D08DO3	Subordinated Debt Programme	June 30, 2011	10.80%	June 30, 2021	12.00	[ICRA]AAA(Stable)
INE916D08DP0	Subordinated Debt Programme	June 23, 2011	10.80%	June 30, 2021	5.00	[ICRA]AAA(Stable)
INE916D08DQ8	Subordinated Debt Programme	September 23, 2011	11.00%	September 23, 2021	50.00	[ICRA]AAA(Stable)
INE916D08DR6	Subordinated Debt Programme	September 28, 2011	11.25%	September 28, 2021	40.00	[ICRA]AAA(Stable)
INE916D08DS4	Subordinated Debt Programme	September 25, 2012	10.40%	September 23, 2022	25.00	[ICRA]AAA(Stable)
INE916D08DT2	Subordinated Debt Programme	December 21, 2012	10.50%	June 22, 2023	40.00	[ICRA]AAA(Stable)
INE916D08DU0	Subordinated Debt Programme	January 15, 2013	9.90%	January 13, 2023	20.00	[ICRA]AAA(Stable)
INE916D08DV8	Subordinated Debt Programme	January 16, 2013	9.90%	January 13, 2023	5.00	[ICRA]AAA(Stable)
INE916D09057	Subordinated Debt Programme	May 5, 2010	10.10%	November 30, 2020	5.00	[ICRA]AAA(Stable)
Unutilised	Nifty Linked Debentures	-	-	-	41.25	PP-MLD [ICRA]AAA(Stable)
Unutilised	Cash Credit and Term Loans	-	-	-	6,391.00	[ICRA]AAA(Stable)
Not Yet Placed	Commercial Paper Programme (IPO financing) ^	NA	NA	7-30 days	6,500.00	[ICRA]A1+

^assigned for application on proprietary account

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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