KIFS Financial Services Limited

February 21, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines	25.00	25.00	[ICRA]BBB+(Stable); reaffirmed
Total	25.00	25.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the rating of [ICRA]BBB+ (pronounced ICRA triple B plus) to the Rs. 25 crore[1] long-term bank lines of KIFS Financial Services Limited (KIFS FSL)[2]. The outlook on the long-term rating is 'Stable'.

Rationale

The rating factors in the parentage of KIFS FSL, being a part of the Khandwala Group, which has experience of over two decades of in the Indian equity space, and the operational linkages with the parent by virtue of being the lending arm for the group's broking business. The rating also factors in KIFS FSL's adequate capitalization levels for current scale of operations, favourable liquidity profile, and presence of adequate risk management and operational systems. The rating, however, remains constrained by the company's modest scale of operations with limited diversification in the revenue stream and the inherent volatility in the group's primary business of arbitrage trading and equity broking, which is prone to cyclical downturns. The rating, at the current level, reflects KIFS FSL's relative positioning with other ICRA-rated margin funding houses. In ICRA's view, going forward, KIFS FSL's rating would be sensitive to its ability to scale up business operations while maintain a healthy asset quality and profitability metrics.

Outlook: Stable

ICRA believes KIFS FSL will continue to benefit from the synergies enjoyed with the broking operations of the Khandwala Group given the close linkages between the group. The outlook may be revised to 'Positive' in the case the Group is able to scale up its broking operations, improve its NBFC product offerings (currently offers only margin funding and loans against shares or LAS) while maintaining adequate profitability and asset quality indicators. The outlook may be revised to 'Negative' if there is significant deterioration in the asset quality or if there is deterioration in the performance of the Group.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications*

Key rating drivers

Credit strengths

Part of the Khandwala Group; strong operational linkages with the promoter group - The Khandwala group is engaged in capital markets related business with presence in segments such as stocks and commodities broking, bullion trading, arbitrage and portfolio management services. KIFS FSL, a subsidiary of Khandwala Commercial Private Limited (KCPL) is the lending arm for the Group. KIFS FSL provides LAS, margin funding, initial public offering/follow-on public offering (IPO/FPO) funding and inter-corporate deposit (ICD) funding to the clients of the established broking business of the group. With KIFS FSL offering being complementary to the broking business, the company remains an important extension for the group. In addition to capital support, KIFS FSL also draws the advantage of strong system, management and infrastructure support and access to a ready clientele from the parent. Going ahead, the continued operational and financial support from the parent would remain a key rating sensitivity.

Comfortable capitalization for current scale of operations - KIFS FSL had a net worth of Rs. 29.68 crore as on September 30, 2017 (vis-à-vis Rs. 25.37 crore as on March 31, 2017). The gearing levels moderated from 0.97 times as on March 31, 2017 to 0.39 times as on September 30, 2107 due to decline in borrowings owing to contraction in its loan book at the close of the financial year. Given the short-term nature of the loans, there can be significant variation in the loan-book during the year owing to which the gearing can vary, however at peak level it is expected to remain under 4 times.

Adequate risk management systems for current scale of operations; comfortable liquidity position - KIFS FSL has deployed adequate risk management systems to monitor, evaluate and mitigate the credit risk, market risk and the operational risk associated with the equity broking and lending business. The company has a strict policy of squaring off positions in case margin calls are not honoured by clients while no loss on client account of franchisees or authorized persons is transferred to the company. The Khandwala Group's broking and lending businesses have a comfortable liquidity profile with low utilisation of margins placed with stock exchanges, sufficient unutilized bank lines available with the respective companies and ready access to client's assets (share collateral) that can be monetised within a very short time. Also, the Group's promoters have close workings relations with various corporates from whom they raise inter-corporate deposits which further supports its funding profile.

Credit challenges

Modest scale of operational and geographically concentrated operations – While the Khandwala Group has been operational in the equity broking business for over 2 decades, the scale of its operations remains modest with a client base of 1.4 lakh customer as on March 31, 2017 (active and inactive accounts) and business predominately concentrated in the states of Gujarat, Maharashtra and Rajasthan. ICRA however takes note of the stable business operations within its area of operations and calibrated geographic expansion being taken of the group.

Low diversification in earnings and low product offerings – Being the captive financier for the brokerage clients of the Group, KIFS FSL has limited product offerings. It offers margin funding and LAS facilities to its clientele and its earnings is almost entirely through interest income. Given the limited product offering and concentrated income profile, the company has limited flexibility in growing its standalone business operations which remains contingent on the performance of the brokerage arm of the Group.

Highly dependence on capital markets - Any adverse event in the capital markets could lead to erosion in value of underlying collateral stocks and would lead to loan call backs/squaring-off of positions which would adversely affect the top line for the company.

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

KIFS Financial Services Limited (KIFS FSL), incorporated in February 1998, is a Non-Banking Financial Company registered with RBI under the Category of Loan Company and is a Subsidiary Company of KIFS Commercial Private Limited. It provides LAS funding, margin funding, IPO/FPO funding and ICDs funding to its clients. KIFS FSL was incorporated in 1995 and the company went public in the year 2013.

During FY2017, the company reported a net profit of Rs. 3.35 crore on a total income of Rs. 8.49 crore as compared with a net profit of Rs. 2.83 crore on a total income of Rs. 7.15 crore. During H1FY2018, the company reported a net profit of Rs. 1.26 crore.

Key financial indicators (audited)

In Rs. crore	FY2016	FY2017	H1FY2018
Total Income	7.15	8.49	2.93
Profit after tax (PAT)	2.83	3.35	1.26
Net Worth	23.19	25.37	29.68
Total managed portfolio	90.25	49.00	38.23
Total managed assets	93.80	53.83	41.86
Return on managed assets (PAT/AMA)	4.00%	4.54%	5.25%
Return on average net worth (PAT/Avg. net worth)	12.70%	13.81%	9.13%
Gearing	2.90	0.97	0.39
Gross NPA%	0.0%	0.0%	0.0%
Net NPA%	0.0%	0.0%	0.0%
Net NPA/Net worth	0.0%	0.0%	0.0%

#AMA – average managed asset

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
	Type	Rated amount (Rs. crore)	Amount Outstanding (Rs Crore)		FY2017	FY2016	FY2015
				Feb-18	Nov-17		
1. Long-term bank lines	Long Term	25.00	NA	[ICRA]BBB+ (stable);	[ICRA]BBB+ (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	NA	NA	NA	25.00	[ICRA]BBB+(stable)

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.

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