Ref: KFL/BSE/2022-23/52

June 09, 2022

To,
The Manager,
Department of Corporate Services,
BSE Limited, 25th Floor, P.J. Towers,
Dalal Street, Fort, Mumbai-400 001

Subject: Intimation under Regulation 51 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.

Dear Sir/Madam,

Pursuant to the Regulation 51 read with Part B of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are pleased to inform that ICRA Limited vide their rating rationale dated June 09, 2022 has upgraded its credit ratings on Company's instrument(s) as per details given below:

Instrument	Revised Rating	Rating Action
Non-Convertible Debentures	[ICRA]A (Stable) *(pronounced as ICRA Single A; Outlook: Stable)*	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Principal Protected Market Linked Debentures	PP-MLD[ICRA]A (Stable) *(pronounced as Principal Protected Market Linked Debenture ICRA Single A; Outlook: Stable)*	PP-MLD[ICRA]A (Stable); Upgraded from PP-MLD [ICRA]A- (Stable)

The rating rationale from ICRA Limited for revision in credit ratings is enclosed.

We request you to kindly take on record the aforesaid information and acknowledge the same.

Thanking you,

For Kogta Financial (India) Limited

KOGTA FINANCIAL (I) LTD. *

Rahul Agrawal
Company Secretary
& Compliance Officer
M. No.: F10834

Encl: a/a

June 09, 2022

Kogta Financial India Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	30.00	30.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
LT Market Linked Debentures	50.00	50.00	PP-MLD[ICRA]A (Stable); upgraded from PP-MLD [ICRA]A- (Stable)
LT Market Linked Debentures	30.00	30.00	PP-MLD[ICRA]A (Stable); upgraded from PP-MLD [ICRA]A- (Stable)
Non-convertible Debentures	95.00	95.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Total	**205.00**	**205.00**	

**Instrument details are provided in Annexure-1; LT – Long term*

***Note:** The letters 'PP-MLD' prefixed to a rating symbol stand for principal protected market linked debentures. According to the terms of the rated instrument, the amount invested, i.e. the principal, is protected against erosion while the returns on the investment could vary, being linked to movements in one or more variables, such as equity indices, commodity prices, and/or foreign exchange rates. The assigned rating expresses ICRA's current opinion on the credit risk associated with the issuer concerned. The rating does not address the risks associated with variability in returns resulting from adverse movements in the variable(s) concerned*

Rationale

The ratings upgrade factors in Kogta Financial India Limited's (KFIL) healthy capitalisation supported by a capital infusion of Rs. 400 crore in May 2022 from new and existing investors, and its demonstrated ability to scale up the business (compound annual growth rate (CAGR) of 42.7% during FY2020-FY2022) while maintaining control on the asset quality indicators (90 days past due (dpd) of 3.2% as on March 31, 2022 compared with 3.1% as on March 31, 2021). The ratings also factor in KFIL's established franchise in Rajasthan, with a good track record and knowledge about the local market, and the adequately diversified borrowing profile for the scale of operations. In ICRA's view, the augmented capital base places the company in a good position in the medium term with adequate headroom for growth.

ICRA also notes that while the portfolio vulnerability has increased due to the challenging operating environment, KFIL has demonstrated the ability to recover from delinquent accounts and has reported a relatively stable asset quality in the past seven years. Its 30+ dpd typically remains high due to the relatively weak credit profiles of the borrowers (largely consists of first-time users/buyers) and the nature of the business, while the 90+ dpd has remained range-bound with an average of 3.0-4.0% during March 2015 to March 2022. ICRA is also cognisant of the vulnerability of the reported asset quality data due to the relief extended to the borrowers by way of restructuring (2.8% of assets under management (AUM) as on March 31, 2022 and 1.5% as on March 31, 2021). However, KFIL reported a swift recovery in its collection efficiency to the pre-Covid level in H2 FY2021. Even though the second wave halted the trajectory in Q1 FY2022, the collection efficiency recovered again to about 99% in Q2 FY2022 after dipping to 75% in April 2021. The average monthly collection efficiency was 101% for Q4 FY2022. ICRA also notes that KFIL's reported gross non-performing advances (NPAs) could increase following the recent clarification by the Reserve Bank of India (RBI) on Income Recognition and Asset Classification norms, though the credit costs are likely to remain under control given the additional provisions carried by the company.

The ratings are, however, constrained by KFIL's modest scale with moderate geographical and product concentration. While the company has expanded its reach over the years to eight states/Union Territories (UTs) in North and West India, the home state of Rajasthan still accounted for 37% of the portfolio as on March 31, 2022 (though lower than 49% as on March 31, 2018). Further, as KFIL primarily operates in the used vehicle financing segment, its customers are mostly first-time borrowers, and single vehicle and small business owners, who are more susceptible to economic shocks and have limited income buffers. Thus, the delinquency indicators for the company could remain volatile. However, KFIL has demonstrated the ability to recover from delinquent accounts and has reported a relatively stable asset quality in the past five years.

ICRA notes that KFIL's profitability remains modest with a return on assets (RoA) and a return on equity (RoE) of 2.3% and 8.4%, respectively. This was due to the relatively high operating expenses (5.1% of managed assets in FY2022 compared to 4.5% in the FY2021), despite controlling the credit cost at 0.8% in FY2022. Going forward, the company's ability to control fresh slippages will remain a key monitorable, especially given the ongoing challenging operating environment.

Key rating drivers and their description

Credit strengths

Good track record along with knowledge of local market; established franchise in Rajasthan – KFIL's leadership team primarily consists of the promoter's family members, backed by an experienced management team and supported by independent and nominee directors. Currently, Mr. Radha Krishan Kogta is the Chairman of the company's board of directors. He has over 15 years of experience in the vehicle financing segment, especially in Rajasthan. This has helped KFIL establish a retail franchise in Rajasthan and its neighbouring states/UTs and gain a good understanding of the local market. He is supported by Mr. Arun Kogta and Mr. Varun Kogta, who have a combined experience of over two decades in the financial services space. KFIL is also backed by established equity investors. The promoter group, viz. the Kogta family, holds a 31.69% equity share (as of May 11, 2022, i.e. post the recent equity infusion) in the company on a fully-diluted basis.

Adequate capitalisation for current scale of operations – KFIL received an equity infusion of Rs. 400 crore in May 2022 from a set of new and existing investors, which has improved its capital buffers. This, coupled with internal accruals, aided a sizeable increase in its net worth to ~Rs. 1,050 crore as on May 11, 2022 from Rs. 651 crore as on March 31, 2022 (Rs. 596 crore as on March 31, 2021). Given the higher net owned funds, KFIL's capitalisation has improved. This provides adequate cushion for absorbing asset-side shocks, if any, emanating from the challenging operating environment. This also places the company in a good position for the medium term with adequate headroom for growth.

ICRA notes that KFIL has outlined a road map for strong growth, which will lead to an increase in the leverage from the current low level of 1.6-1.7x post the recent equity infusion (2.9 times as on March 31, 2022). In this regard, growth capital from investors is likely to be forthcoming and the gearing is expected to remain below 4 times over the medium term. An increase in the gearing level over 4 times on a sustained basis could be a credit negative for the company.

Adequately diversified borrowing profile for the scale of operations – KFIL's borrowing profile is adequately diversified, with sources including banks (41% as on March 31, 2022), non-banking financial companies (NBFCs; ~20%), and debt markets (~23%). As of March 31, 2022, the company had borrowing relationships with about 50 lenders. It also continues to raise funds through securitisation/direct assignment, with such on-balance sheet and off-balance sheet borrowings amounting to 15% of the total borrowings as of March 31, 2022. However, the share of off-balance sheet borrowings is expected to increase to ~20-25% on a consistent basis. Also, with an improvement in its competitive position and a systemic decline in interest rates, KFIL's cost of funds moderated to 9.3% in FY2022. Nevertheless, given its growth plans, the company would need to continuously expand the borrowing relationships and borrow at competitive costs.

Credit challenges

Exposure to relatively weak borrower profiles, which are susceptible to economic shocks and have limited income buffers – As KFIL primarily operates in the used vehicle financing segment, its customers are mostly first-time borrowers, and single vehicle and small business owners, who are susceptible to economic shocks and have limited income buffers. Thus, the delinquencies in the softer buckets could remain volatile for the company. Nonetheless, while ICRA believes that the asset quality, especially in select asset segments, could be under pressure due to the ongoing impact of the Covid-19 pandemic, it is noted that KFIL has demonstrated the ability to recover from delinquent accounts and has reported a relatively stable asset quality in the past seven years. While KFIL's 30+ dpd typically remains high (five-year average of 13-14% and 10% as on March 31, 2022) due to the inherently weak credit profiles of the borrowers and the nature of the business, the 90+ dpd has remained range-bound with an average of 3.0-4.0% during March 2015 to March 2022 (3.2% as on March 31, 2022).

The asset quality trajectory reflects positively on the company's credit origination, assessment and monitoring processes and collection mechanisms, which are supported by an in-house end-to-end integrated software. The company reported a swift recovery in its collection efficiency to the pre-Covid level in H2 FY2021. Even though the second wave halted the trajectory in Q1 FY2022, the collection efficiency recovered again to about 99% in Q2 FY2022 after dipping to 75% in April 2021. The average monthly collection efficiency was 101% for Q4 FY2022. While ICRA is cognisant of the vulnerability of the reported asset quality data due to the relief extended to borrowers by way of restructuring (2.8% of AUM as on March 31, 2022 and 1.5% as on March 31, 2021), it is noted that these loans have shown repayment record of atleast three instalments till March 2022.

ICRA also notes that KFIL's reported gross NPAs would increase following the RBI's recent clarification on IRAC norms, though the credit costs are likely to remain under control given the additional provisions carried by the company. Going forward, the company's ability to control fresh slippages will remain a key monitorable, especially given the ongoing challenging operating environment. in this regard, KFIL's capitalisation level provides a cushion for absorbing asset-side shocks, if any, emanating from the ongoing challenging operating environment.

Modest scale with geographical and product concentration; albeit improving – As KFIL has raised fresh capital and forayed into new geographies and products over the years, its disbursements and hence AUM have grown at a fast pace with the AUM touching Rs. 2,183 crore in March 2022 compared to Rs. 722 crore in March 2019. Further, while the company has expanded its reach over the years to eight states/UTs in North and West India through a network of about 179 branches (as of March 31, 2022), the home state of Rajasthan still accounted for 37% of the portfolio as on March 31, 2022 (though lower than 49% as on March 31, 2018). The rest of the lending portfolio in the states/UTs of Gujarat (17%), Maharashtra (15%), Madhya Pradesh (MP), Uttar Pradesh (UP), Delhi, and Punjab & Haryana.

Moreover, as the vehicle loan financing segment has consistently accounted for the strong growth, its share in KFIL's AUM remained at about 78% as on March 31, 2022 (though lower than 89% as on March 31, 2019). Also, while the share of the used vehicle financing segment moderated to 64% of the AUM in March 2022 from 72% in March 2019, it remains the largest business area for the company. Nevertheless, ICRA notes that KFIL has gained traction in the micro, small and medium enterprise (MSME) lending space to cater to a similar category of low-and-middle-income group borrowers, and its share in the AUM increased to about 22% as of March 31, 2022.

Moderate profitability – Given its target borrower profile, KFIL commands high lending yields as reflected by the average yield of 18.7% for FY2022. The cost of interest-bearing funds eased to 9.3% in FY2022 from over 11.5% in FY2019. Consequently, the company's lending spread has remained at 9.4%, which is commensurate with the riskiness of the underlying portfolio and above the average lending spread of 8.4% during FY2018 to FY2022. Considering the portfolio growth and geographical expansion, operating expenses have remained relatively higher at 5.1% of managed assets in FY2022 (compared to 4.5% in FY2021), which, in turn, has been a drag on the return indicators. The company's profitability remains modest with RoA of 2.3% and RoE of 8.4% in FY2022, despite the controlled credit cost of 0.8% in FY2022. Nevertheless, as the operating expenses stabilise with economies of scale, the profitability is expected to improve over the medium term, provided KFIL can maintain good control on fresh slippages.

Liquidity position: Adequate

The short-to-medium tenure of the loans extended by KFIL (average tenure of 3.5-4 years) matches well with the weighted average tenure of the term facilities (~3 years) availed by the company and reflects positively in the asset-liability maturity (ALM) profile. Thus, KFIL's ALM profile, in the normal course of business, is characterised by positive cumulative mismatches across all buckets up to 1 year. KFIL was carrying adequate on-balance sheet liquidity as on March 31, 2022 with cash &

equivalents of about Rs. 650 crore (35% of total borrowings). Cash & equivalents include investments of Rs. 185 crore in bonds and debentures. This is sufficient to manage the debt servicing burden (principal and interest) over the next six months.

The company's liquidity profile is also supported by the undrawn sanctioned bank lines of Rs. 40.5 crore as on March 31, 2022. As on March 31, 2022, it had debt repayments of Rs. 383 crore in the next six months compared to expected inflows from advances of Rs. 277 crore during this period.

Rating sensitivities

Positive factors – The ratings could be upgraded on a sustained improvement in the profitability (RoA>3.0%) and competitive position through a healthy growth in the scale while maintaining comfortable asset quality and capitalisation.

Negative factors – Pressure on the ratings could emerge on a significant increase in the leverage (gearing of more than 4 times on a sustained basis) and/or a sustained deterioration in the asset quality or weakening in the liquidity and earnings profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group Support	-
Consolidation/Standalone	Standalone

About the company

Kogta Financial India Limited (KFIL), incorporated in 1996, is an NBFC, which primarily finances new and used commercial vehicles, multi-utility vehicles, cars, and tractors. It also provides loans against property (LAP) and MSME loans. The Jaipur-based company operates through a network of about 179 branches (as of March 31, 2022) across Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Delhi NCR, Uttar Pradesh and Punjab & Haryana.

As of March 31, 2022, the company's AUM stood at ~Rs. 2,183 crore compared to ~Rs. 1,496 crore in March 2021. While the used vehicle financing segment accounted for a 64% share in the AUM as on March 31, 2022, the new vehicle financing segment's share stood at 14% with LAP/MSME loans accounting for the balance. Rajasthan accounted for 37% of the AUM as on March 31, 2022.

Post the equity infusion in May 2022, the promoter group, viz. the Kogta family, holds a 31.7% equity stake (including warrants) in the company on a fully-diluted basis, while the balance is held by Morgan Stanley Private Equity Asia (23.2%), Creador Advisors India LLP (17.2%), Multiples Private Equity (14.3%) and Javelin Investments (9%).

Key financial indicators

	FY2020	FY2021	FY2022
	Audited	Audited	Audited
Total Income	165	232	331
PAT	25	45	52
Net Worth	549	596	651
Assets under Management	1,072	1,496	2,183
Total Assets	1,267	1,891	2,620
Return on Average Assets	2.4%	2.9%	2.3%
Return on Average Equity	6.5%	7.9%	8.4%
Gearing (times)	1.3	2.1	2.9
CRAR	58%	43%	28%
90+ dpd (%)	3.0%	3.1%	3.2%
Gross Stage 3 %	3.2%	3.3%	3.6%
Net Stage 3 %	2.6%	2.4%	2.5%
Net Stage 3/Net Worth %	4.7%	5.3%	7.2%

Source: *KFIL, ICRA Research; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding^ (Rs. crore)	Jun 09, 2022	Apr 4, 2022	Date & Rating in FY2022				Date & Rating in FY2021	Date & Rating in FY2020		
							Dec 9, 2021	Sep 22, 2021	Jul 8, 2021	May 20, 2021	Dec 31, 2020	Nov 4, 2019	Sep 20, 2019	Aug 20, 2019
1	NCD	LT	30.00	30.00	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	-	-	-	-	-	-	-
2	MLD	LT	50.00	30.00	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A- (Stable)	PP-MLD [ICRA]A- (Stable)	-	-	-	-	-	-	-
3	MLD	LT	30.00	30.00	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A- (Stable)	PP-MLD [ICRA]A- (Stable)	PP-MLD [ICRA]A- (Stable)	-	-	-	-	-	-
4	NCD	LT	95.00	80.00	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-	-	-	-
5	Term Loan	LT	10.00	0.00	-	[ICRA]A(CE) (Stable); Withdrawn	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	Provisional [ICRA]A(CE) (Stable)	Provisional [ICRA]A(CE) (Stable)
6	NCD	LT	-	-	-	-	-	-	-	[ICRA]AA(CE) (Stable); Withdrawn	[ICRA]AA(CE) (Stable)	[ICRA]AA(CE) (Stable)	[ICRA]AA(CE) (Stable)	[ICRA]AA-(CE) (Stable)

Source: *ICRA Research; LT - Long term; ^Outstanding as on June 06, 2022*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture (NCD)	Simple
LT Market Linked Debenture (MLD)	Complex

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 analysing 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 as on June 06, 2022

ISIN/ Bank Name	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE192U07210	NCD	Sep 20, 2021	HDFC Bank MCLR rate linked	Mar 20, 2025	25.00	[ICRA]A (Stable)
INE192U07236	NCD	Sep 23, 2021	Repo rate linked	Sep 23, 2025	20.00	[ICRA]A (Stable)
INE192U07228	NCD	Sep 23, 2021	Repo rate linked	Sep 23, 2023	25.00	[ICRA]A (Stable)
INE192U07293	NCD	Mar 30, 2022	8.71%	Sep 30, 2024	10.00	[ICRA]A (Stable)
INE192U07301	NCD	May 09, 2022	10.60%	May 09, 2025	30.00	[ICRA]A (Stable)
Yet to be placed	NCD	-	-	-	15.00	[ICRA]A (Stable)
INE192U08051	MLD	Sep 27, 2021	BSE Sensex	Oct 31, 2024	30.00	PP-MLD [ICRA]A (Stable)
INE192U07285	MLD	Dec 20, 2021	G Sec linked	Jun 20, 2024	30.00	PP-MLD [ICRA]A (Stable)
Yet to be placed	MLD	-	-	-	20.00	PP-MLD [ICRA]A (Stable)

Source: *ICRA Research, KFIL*

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

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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.

For more information, visit www.icra.in

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Branches