September 05, 2023

Kogta Financial India Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	250.00	250.00	[ICRA]A (Positive); reaffirmed and outlook revised from Stable
LT market linked debentures	80.00	80.00	PP-MLD[ICRA]A (Positive); reaffirmed and outlook revised from Stable
Term loan	500.00	500.00	[ICRA]A (Positive); reaffirmed and outlook revised from Stable
Total bank facilities	**830.00**	**830.00**	

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

Rationale

The ratings for Kogta Financial India Limited (KFIL) factor in its adequate capitalisation and its demonstrated ability to scale up the business (compound annual growth rate (CAGR) of 48% during FY2019-FY2023). The ratings also factor in KFIL's diversified borrowing profile for the current scale of operations and its established track record and franchise in the regional market. The ratings also consider KFIL's adequate profitability (return on managed assets (RoMA) and return on average net worth (RoNW) of 1.8% and 7.0%, respectively, in Q1 FY2024 compared with 2.3% and 9.6%, respectively, in FY2023). The change in the outlook reflects ICRA's expectation that the company would sustain the growth trajectory while maintaining the asset quality, leading to an improvement in the profitability.

ICRA notes that the profitability indicators had moderated in Q1 FY2024 due to the dip in the collection efficiency (in line with vehicle financing industry) and higher credit costs because of write-offs from the restructured book. However, ICRA notes that collections increased subsequently, and the operating efficiency is expected to improve with economies of scale, thus leading to better profitability indicators. The ratings are, however, constrained by KFIL's limited portfolio seasoning on the back of the high growth seen in the last few fiscals. 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 34% of the portfolio as on June 30, 2023 (though lower than 49% as on March 31, 2018). Further, as KFIL primarily operates in the used vehicle financing segment, its customers are mostly small road transport operators, small business owners and first-time borrowers and single vehicle owners, who are more susceptible to economic shocks and have limited income buffers. Thus, the company's delinquency indicators could remain volatile.

Further, while the portfolio vulnerability remains high, KFIL has demonstrated the ability to recover from delinquent accounts, reporting a relatively stable asset quality in the past seven years. Its 30+ days past due (dpd) typically remains high due to the relatively weak credit profiles of the borrowers and the nature of the business. However, with focused collection efforts and the improved operating environment, the company was able to reduce the 30+ dpd to 6.3% as on June 30, 2023 from the peak of 14.3% as on December 31, 2021 during the Covid-19 pandemic. At the same time, the 90+ dpd improved to 2.5% as on June 30, 2023 (2.9% on March 31, 2023) from 3.2% as on March 31, 2022. Also, the company's overall restructured book declined to 0.9% of the assets under management (AUM) as on June 30, 2023 from 1.5% as on March 31, 2023 (3.5% as on March 31, 2022). KFIL's reported gross non-performing advances (NPAs), as per the Reserve Bank of India's (RBI) new Income Recognition and Asset Classification (IRAC) norms, improved to 2.9% as on June 30, 2023 (3.3% as on March 31, 2023) from 3.6% as on March 31, 2022 on account of control over fresh slippages and higher write-offs in Q1 FY2024 from the restructured book. Going forward, the company's ability to continue to grow as per business plans while maintaining control over fresh slippages will remain a key monitorable.

Key rating drivers and their description

Credit strengths

Capital profile commensurate to support near term portfolio growth – KFIL received an equity infusion of Rs. 400 crore in May 2022 from a set of new and existing investors, which improved its capital buffers. This, coupled with internal accruals, aided a sizeable increase in its net worth to Rs. 1,134.8 crore as on March 31, 2023 from Rs. 651.0 crore as on March 31, 2022. As of June 30, 2023, the net worth stood at Rs. 1,155.0 crore. The company's financial profile is characterised by adequate capitalisation with the managed gearing reducing to 2.9x as on June 30, 2023 (2.8x as on March 31, 2023) from 3.4x as on March 31, 2022 due to the capital infusion. This provides adequate cushion for absorbing asset-side shocks, if any, thus placing the company in a good position for portfolio growth over the near term. However, ICRA notes that KFIL has outlined a roadmap for strong growth, which is likely to increase the leverage from the current level. In this regard, growth capital from investors is likely to be forthcoming and the managed gearing is expected to remain below 4x over the near term. An increase in the managed gearing beyond 4x on a sustained basis could be a credit negative for the company and will hence be a monitorable.

Profitability profile remains adequate; expected to improve, going forward – Given its target borrower profile, KFIL commands high lending yields, as reflected by the average yield of 18.3% in FY2023 (yields remained range-bound at 18-19% over the past four years). The cost of interest-bearing funds for KFIL reduced to 8.3% in FY2023 from 9.3% in FY2022 because of the base effect and the repayment of high-cost borrowings from larger non-banking financial companies (NBFCs) and small finance banks (SFBs) during this period (these have been replaced by lower-cost bank borrowings). Consequently, the lending spread improved to 9.9% in FY2023 from 9.4% in FY2022. The net interest margin (NIM; including fees and direct assignment (DA) income) improved to 8.8% in FY2023 from 8.4% in FY2022 because of the reduction in the gearing on account of the capital infusion in May 2022. The operating expenses declined marginally to 5.0% in FY2023 from 5.1% in FY2022 on account of operating efficiency, but remain high. Further, the incremental provisions on account of the higher slippage rate led to a marginal increase in the credit costs to 0.9% in FY2023 from 0.7% in FY2022. Overall, the company's profitability improved moderately with RoMA and RoNW of 2.3% and 9.6%, respectively, in FY2023 compared to 2.1% and 8.4%, respectively, in FY2022.

In Q1 FY2024, the yields moderated to 17.9% because of the dip in the collection efficiency. The cost of funds increased to 9.3% in Q1 FY2024 because of repayments from the funds raised amidst the rise in systemic interest rates. Consequently, the lending spreads and NIM (including fees and DA income) moderated to 8.6% and 8.4%, respectively, in Q1 FY2024. While the operating expenses declined to 4.9% in Q1 FY2024, the credit costs increased to 1.3% on account of higher write-offs from the restructured book. Hence, the profitability weakened with RoMA and RoNW of 1.8% and 7.0%, respectively, in Q1 FY2024. 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.

Diversified borrowing profile for current scale of operations – KFIL's borrowing profile is diversified for its current scale, with sources including banks (69% of total borrowings as on June 30, 2023), NBFCs (11%), and debt markets (17%). As on June 30, 2023, the company had borrowing relationships with 50+ banks and financial institutions and continues to raise funds through securitisation (2% of the total borrowings as on June 30, 2023). The cost of funds for the company moderated to 8.3% in FY2023 from 9.3% in FY2022 despite the rising interest rate scenario because of the base effect and the replacement of some of the high-cost debt from NBFCs/SFBs with relatively lower-priced bank funding. Nonetheless, the cost of funds increased to 9.3% in Q1 FY2024 as the balance sheet started reflecting the impact of the rise in systemic rates and funds in H2 FY2023. KFIL would need to continue expanding the lender base to grow as per its business plans.

Established track record and franchise in regional market – 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. Mr.

Radha Krishan Kogta, the Chairperson of the company's board of directors, 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, two other members of the family, 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, held a 31.7% equity share as on June 30, 2023 in the company on a fully-diluted basis. In line with the business plans, the company has also invested in developing an in-house management information systems (MIS) which is fully integrated across functions. This would enable the company to leverage on the strengthened technological capabilities and profitably grow while achieving operating efficiencies.

Credit challenges

Limited portfolio seasoning on the back of high growth – As KFIL raised fresh capital over the years and forayed into new geographies and products, its disbursements and hence AUM increased at a fast pace (CAGR of 48% during FY2019-FY2023 and year-on-year (YoY) growth of 58% between Q1 FY2023 and Q1 FY2024) with the AUM touching Rs. 3,706 crore as on June 30, 2023 (Rs. 3,396 crore as on March 31, 2023) compared to Rs. 2,183 crore as on March 31, 2022. This indicates limited portfolio seasoning. Further, while the company expanded its reach over the years to eight states/UTs in North and West India through a network of about 202 branches (as on June 30, 2023), the home state of Rajasthan still accounted for 34% of the portfolio as on June 30, 2023 (though lower than 49% as on March 31, 2018). The rest of the lending portfolio is in Uttar Pradesh (2%) and the neighbouring states/UTs of Gujarat (16%), Maharashtra (19%), Madhya Pradesh (MP; 13%), Delhi NCR (4%) and Punjab & Haryana (12%).

Moreover, as the vehicle loan financing segment consistently accounted for the strong growth, its share in KFIL's AUM as on June 30, 2023 remained in line with the FY2022 level at ~80% (though lower than 89% as on March 31, 2019). Also, while the share of the used vehicle financing segment moderated to 68% of the AUM as on June 30, 2023 from 72% as on March 31, 2019, it has remained 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 has increased to about 20% (as on June 30, 2023).

Exposure to relatively weak borrower profile, which is susceptible to economic shocks – 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 delinquencies in the softer buckets could remain volatile for the company. Nonetheless, 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 improved to 6.3% as on June 30, 2023 (6.2% as on March 31, 2023) from 9.7% as on March 31, 2022 (due to change in collection strategy to focus on collections in the current and 0-60 dpd bucket and improvement in collections), it remains high due to the inherently weak credit profiles of the borrowers and the nature of the business. However, KFIL is able to control the roll forwards and the 90+ dpd improved to 2.5% as on June 30, 2023 (2.9% as on March 31, 2023) from 3.2% as on March 31, 2022.

The company's gross NPAs (as per RBI's new IRAC norms) improved to 2.9% as on June 30, 2023 (3.3% as on March 31, 2023) from 3.6% as on March 31, 2022 on account of the control over fresh slippages and higher write-offs in Q1 FY2024 from the restructured book. Consequently, the restructured book declined to 0.9% of the AUM as on June 30, 2023. Going forward, the company's ability to control fresh slippages while growing as per business plans will remain a key monitorable. However, it is noted that KFIL's capitalisation level provides a cushion for absorbing asset-side shocks, if any.

Liquidity position: Adequate

The short-to-medium tenure of the loans extended by KFIL (average tenure of about 4 years) matches well with the weighted average tenure of the term facilities (3.4 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 one year. As per the ALM profile on June 30, 2023, KFIL has debt maturities of Rs. 1,326 crore for the 12-month period ending June 30, 2024 against which its expected inflows from performing advances are Rs. 1,501 crore during the same period. It had adequate on-balance sheet liquidity as on June 30, 2023 with cash and equivalents of about Rs. 527 crore (19% of total borrowings). Cash & equivalents include investments of Rs. 149 crore in bonds, debentures and pass-through-certificates (PTCs). Liquidity is also supported by undrawn sanctioned bank lines of Rs. 55 crore as on June 30, 2023.

Rating sensitivities

Positive factors – The ratings could be upgraded on a healthy growth in the scale on a sustained basis while maintaining comfortable asset quality and capitalisation and/or a sustained improvement in the profitability (RoMA>3.0%).

Negative factors – Pressure on the ratings could emerge on a significant increase in the leverage (managed gearing increasing beyond 4x 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 MSME loans and loan against property (LAP). The Jaipur-based company operates through a network of about 202 branches (as on June 30, 2023) across Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Delhi NCR, Uttar Pradesh and Punjab & Haryana.

The company's AUM stood at Rs. 3,706 crore as on June 30, 2023 compared to Rs. 3,396 crore as on March 31, 2023 (Rs. 2,183 crore March 31, 2022). While the used vehicle financing segment accounted for a 68% share in the AUM as on June 30, 2023, the new vehicle financing segment's share stood at 11% with LAP/MSME loans accounting for 20%. Rajasthan accounted for 34% of the AUM as on June 30, 2023.

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%).

The company reported a profit after tax (PAT) of Rs. 85.5 crore in FY2023 on a total managed asset base of Rs. 4,419.9 crore as on March 31, 2023 compared to a PAT of Rs. 52.1 crore in FY2022 on a total managed asset base of Rs. 2,926.7 crore as on March 31, 2022. The company's net worth stood at Rs. 1,134.8 crore as on March 31, 2023 compared to Rs. 651.0 crore as on March 31, 2022. The gross and net NPA stood at 3.3% and 1.8%, respectively, as on March 31, 2023 compared to 3.6% and 2.5%, respectively, as on March 31, 2022.

In Q1 FY2024, KFIL reported a PAT of Rs. 20.1 crore on a total managed asset base of Rs. 4,582.4 crore as on June 30, 2023. The company had a net worth of Rs. 1,155 crore as on June 30, 2023. The gross and net NPA stood at 2.9% and 1.7%, respectively, as on June 30, 2023.

Key financial indicators

	FY2021	FY2022	FY2023	Q1 FY2024
	Audited	Audited	Audited	Provisional
Total income	245.5	360.3	521.9	159.1
Profit after tax	45.1	52.1	85.5	20.1
Net worth	596.4	651.0	1,134.8	1,155.0
Gross loan book	1,353.5	1,894.2	2,903.5	3,149.6
Total managed assets	2,042.2	2,926.7	4,419.9	4,582.4
Return on average managed assets	2.7%	2.1%	2.3%	1.8%
Return on average net worth	7.9%	8.4%	9.6%	7.0%
CRAR	43.4%	28.5%	34.1%	33.4%
Managed gearing (times)	2.3	3.4	2.8	2.9
Gross stage 3 (%)	3.3%	3.6%	3.1%	2.7%
Net stage 3 (%)	2.4%	2.5%	1.9%	1.8%
Gross NPA (%; as per new IRAC norms)	3.3%	3.6%	3.3%	2.9%
Net NPA (%; as per new IRAC norms)	2.4%	2.5%	1.8%	1.7%
Solvency (Net NPA/Net worth; %)	5.3%	7.2%	4.5%	4.5%

Source: KFIL, ICRA Research; Amount in Rs. crore; All figures and ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding^ (Rs. crore)	Date & Rating	Date & Rating in FY2023				Date & Rating in FY2022				Date & Rating in FY2021
					Sep 05, 2023	Mar 16, 2023	Aug 30, 2022	Jun 09, 2022	Apr 4, 2022	Dec 9, 2021	Sep 22, 2021	Jul 8, 2021	May 20, 2021	Dec 31, 2020
1	Non-convertible debentures	Long term	250.00	205.24	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-
2	LT market linked debentures	Long term	80.00	60.00	PP-MLD [ICRA]A (Positive)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A- (Stable)	PP-MLD [ICRA]A- (Stable)	PP-MLD [ICRA]A- (Stable)	-	-	-
3	Term loan	Long term	500.00	0.00	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-	-	-	-
4	Term loan	Long term	-	-	-	-	-	-	[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)
5	Non-convertible debentures	Long term	-	-	-	-	-	-	-	-	-	-	[ICRA]AA(CE) (Stable); Withdrawn	[ICRA]AA(CE) (Stable)

Source: ICRA Research; ^Outstanding as on July 31, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture (NCD)	Simple
LT market-linked debenture (MLD)	Complex
Term loan	Simple

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: Click Here

Annexure I: Instrument details (as on July 31, 2023)

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	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 (Positive)
INE192U07236	**NCD**	Sep-23-2021	Repo rate linked	Sep-23-2025	20.00	[ICRA]A (Positive)
INE192U07228	**NCD**	Sep-23-2021	Repo rate linked	Sep-23-2023	25.00	[ICRA]A (Positive)
INE192U07293	**NCD**	Mar-30-2022	8.71%	Sep-30-2024	10.00	[ICRA]A (Positive)
INE192U07301	**NCD**	May-09-2022	10.60%	May-09-2025	30.00	[ICRA]A (Positive)
INE192U07335	**NCD**	Mar-24-2023	9.74%	Dec-23-2025	125.00	[ICRA]A (Positive)
NA	**NCD***	NA	NA	NA	15.00	[ICRA]A (Positive)
INE192U08051	**MLD**	Sep-27-2021	BSE Sensex	Oct-31-2024	30.00	PP-MLD[ICRA]A (Positive)
INE192U07285	**MLD**	Dec-20-2021	G-Sec linked	Jun-20-2024	30.00	PP-MLD[ICRA]A (Positive)
NA	**MLD***	NA	NA	NA	20.00	PP-MLD[ICRA]A (Positive)
NA	**Term loan***	NA	NA	NA	500.00	[ICRA]A (Positive)

Source: KFIL, ICRA Research
** Yet to be placed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91-22-6114 3444
karthiks@icraindia.com

Manushree Saggar
+91-124-4545 316
manushrees@icraindia.com

Rajat Kher
+91 124 4545 833
rajat.kher@icraindia.com

Himanshu Nihalani
+91 124 4545 820
himanshu.nihalani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91-22-6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches