March 13, 2024

Kogta Financial India Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	325.00	325.00	[ICRA]A+ (Stable); reaffirmed
LT market linked debentures	60.00	60.00	PP-MLD[ICRA]A+ (Stable); reaffirmed
LT market linked debentures	20.00	0.00	PP-MLD[ICRA]A+ (Stable); reaffirmed and withdrawn
Term loan	500.00	500.00	[ICRA]A+ (Stable); reaffirmed
Long-term fund based/non-fund-based others	0.00	1,000.00	[ICRA]A+ (Stable); assigned
Total	**905.00**	**1,885.00**	

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

Rationale

The ratings factor in Kogta Financial India Limited's (KFIL) demonstrated track record of business expansion while maintaining adequate capitalisation and profitability. The company has scaled up the business (compound annual growth rate (CAGR) of 48% during FY2019-FY2023 and year-on-year (YoY) growth of 47% in 9M FY2024), supported by regular capital raising and stable asset quality. KFIL's net worth stood at Rs. 1,230 crore with a managed gearing of 3.4x as on December 31, 2023. The profitability indicators have been good with a return on managed assets (RoMA) and a return on average net worth (RoNW) of 2.5% and 10.5%, respectively, in 9M FY2024 compared with 2.3% and 9.6%, respectively, in FY2023. The ratings also consider KFIL's diversified borrowing profile and its established track record and franchise in the regional market.

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 December 31, 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. Nonetheless, it is noted that KFIL has demonstrated the ability to make recoveries from delinquent accounts, reporting a relatively stable asset quality in the past seven years.

The Stable outlook reflects ICRA's expectation that the company would continue to scale up profitably while controlling the asset quality and maintaining an adequate capitalisation profile.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 20-crore long-term (LT) market linked debentures at the request of the company as no amount is outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Capital profile commensurate to support near term portfolio growth – KFIL's capital profile is characterised by a managed gearing of 3.4x as on December 31, 2023 (2.8x as on March 31, 2023) while the net worth stood at Rs. 1,230 crore. The company has adequate capital cushions for absorbing any asset-side shocks and to support the near-term portfolio growth. However, KFIL shall need to raise external capital in FY2026 in view of its growth plans (assets under management (AUM) to increase at a CAGR of 32-33% during FY2024-FY2026) so that the managed gearing does not exceed 4.0x on a sustained basis.

Profitability profile remains adequate; expected to improve, going forward – Given its target borrower profile, KFIL has high lending yields as reflected by the average yield of 18.7% in 9M FY2024 {yields remained range-bound at 18-19% in the past four years (FY2020-FY2023)}. The cost of funds increased to 9.1% in 9M FY2024 from 8.3% in FY2023 on account of the elevated systemic rates (the reduction in the cost of funds in FY2023 was partly because of the replacement of high-cost borrowings from larger non-banking financial companies (NBFCs) by relatively low-cost bank borrowings and partly due to the base effect). Consequently, the lending spreads moderated to 9.6% in 9M FY2024 from 9.9% in FY2023. The net interest margin (managed assets basis; including fees and direct assignment (DA) income) improved marginally to 9.0% in 9M FY2024 from 8.8% in FY2023, supported by upfront income from assignment transactions. The operating expenses moderated to 4.8% in 9M FY2024 from 5.0% in FY2023, driven by the improved operating efficiency. The credit costs increased marginally to 1.1% in 9M FY2024 from 0.9% in FY2023 because of higher write-offs from the restructured book. Overall, the profitability has improved with RoMA and RoNW of 2.5% and 10.5%, respectively, in 9M FY2024 compared to 2.3% and 9.6%, respectively, in FY2023. ICRA notes that the improvement in incremental profitability shall depend on the optimisation of the operating expenses with economies of scale and the ability to keep fresh slippages under control.

Diversified borrowing profile for current scale of operations – KFIL's borrowing profile is diversified for its current scale, with sources including banks (62% of total borrowings as on December 31, 2023), NBFCs (10%), and debt markets (10%). As on December 31, 2023, the company had borrowing relationships with 50+ banks and financial institutions and continues to raise funds through securitisation/assignment (18% of the total borrowings as on December 31, 2023). The cost of funds increased to 9.1% in 9M FY2024, reflecting the impact of the rise in systemic rates. The cost of funds had reduced to 8.3% in FY2023 from 9.3% in FY2022 partly because of the replacement of high-cost borrowings from larger NBFCs by relatively low-cost bank borrowings and partly due to the base effect. KFIL would need to continue expanding its lender base, while borrowing at competitive rates, to grow as per its business plans.

Established track record and franchise in regional market – KFIL's promoters have over 15 years of experience in the vehicle financing business especially in Rajasthan. This has helped it establish a retail franchise in Rajasthan and its neighbouring states/UTs and gain a good understanding of the local 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. The promoter group, viz. the Kogta family, held a 31.7% equity share as on December 31, 2023 in the company on a fully-diluted basis. It is also backed by established equity investors. In line with its business plans, KFIL has also invested in developing an in-house management information system (MIS), which is fully integrated across functions. This would enable it to leverage the strengthened technological capability and grow profitably while achieving operating efficiency.

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 YoY growth of 47% in 9M FY2024) with the AUM touching Rs. 4,358 crore as on December 31, 2023 (Rs. 3,396 crore as on March 31, 2023 and 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 207 branches as on December 31, 2023, the home state of Rajasthan still accounted for 34% of the portfolio (though lower than 49% as on March 31, 2018). The rest of the lending portfolio is in Gujarat (16%), Maharashtra (18%), Madhya Pradesh (MP; 13%) and others (including Delhi NCR, Punjab, Haryana, etc: 9%). KFIL's ability to expand into new geographies in the near to medium term while improving its operating efficiency in the existing states will be imperative for expanding the scale of operations.

Moreover, as the vehicle loan financing segment consistently accounted for the strong growth, its share in KFIL's AUM, as on December 31, 2023, remained in line with the FY2023 level at ~80% (though lower than 89% as on March 31, 2019). Also, while the share of the used vehicle financing segment moderated to 69% of the AUM as on December 31, 2023 from 72% as on March 31, 2019, it has remained the largest business area for the company. ICRA notes that KFIL has gained traction in the secured 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 December 31, 2023). The impact of portfolio seasoning on the overall asset quality will remain a monitorable over the medium term.

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, 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, the 30+ dpd (on AUM basis) remained stable at 6.3% as on December 31, 2023 (6.2% as on March 31, 2023). Further, the company has been able to control the roll forwards; thus, the 90+ dpd (on AUM basis) remained stable at 2.8% as on December 31, 2023 (2.9% as on March 31, 2023).

The company's gross non-performing advances (NPAs), as per the Reserve Bank of India's (RBI) new Income Recognition and Asset Classification (IRAC) norms, improved to 3.1% as on December 31, 2023 from 3.3% as on March 31, 2023 on account of control over fresh slippages as well as higher write-offs from the restructured book. Consequently, the restructured book declined to 0.5% of the AUM as on December 31, 2023 from 1.5% as on March 31, 2023. Going forward, the company's ability to control fresh slippages while growing as per business plans will remain a key monitorable.

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 it 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 December 31, 2023, the company has debt maturities of Rs. 1,695 crore for the 12-month period ending December 31, 2024 against which its scheduled inflows from performing advances are Rs. 1,679 crore. It had adequate on-balance sheet liquidity, as on December 31, 2023, with cash and equivalents of about Rs. 636 crore (19% of total on-balance sheet borrowings). Cash & equivalents include investments of Rs. 298 crore in bonds and debentures. Liquidity is also supported by the undrawn sanctioned bank lines of Rs. 501 crore as on December 31, 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 of more than 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 Policy on withdrawal of credit ratings
Parent/Group support	-

Analytical Approach	Comments
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 secured MSME loans and loan against property (LAP). The Jaipur-based company had about 207 branches, as on December 31, 2023, across Rajasthan, Gujarat, Maharashtra, MP, and others (including Delhi NCR, Punjab, Haryana, etc).

The company's AUM stood at Rs. 4,358 crore as on December 31, 2023 compared to Rs. 3,396 crore as on March 31, 2023. While the used vehicle financing segment accounted for 69% of the AUM as on December 31, 2023, the new vehicle financing segment's share stood at 11% with LAP/secured MSME loans accounting for 20%. Rajasthan accounted for 34% of the AUM as on December 31, 2023.

Following 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 (9.0%).

KFIL reported a profit after tax of Rs. 93.1 crore in 9M FY2024 on a total managed asset base of Rs. 5,496.4 crore as on December 31, 2023. Its net worth stood at Rs. 1,230.0 crore with a managed gearing of 3.4x as on December 31, 2023. The gross and net NPAs stood at 3.1% and 1.7%, respectively, as on December 31, 2023.

Key financial indicators

	FY2021	FY2022	FY2023	9M FY2024
	Audited	Audited	Audited	Provisional
Total income	245.5	360.3	521.9	549.9
Profit after tax	45.1	52.1	85.5	93.1
Total managed assets	2,042.2	2,926.7	4,419.9	5,496.4
Return on average managed assets	2.7%	2.1%	2.3%	2.5%
Managed gearing (times)	2.3	3.4	2.8	3.4
Gross stage 3	3.3%	3.6%	3.1%	3.1%
Gross NPA (as per new IRAC norms)	3.3%	3.6%	3.3%	3.1%
CRAR	43.4%	28.5%	34.1%	28.5%

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

	Instrument	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years											
		Type	Amount Rated (Rs. crore)	Amount Outstanding^ (Rs. crore)	Date & Rating in FY2024			Date & Rating in FY2023				Date & Rating in FY2022				Date & Rating in FY2021
					Mar 13, 2024	Feb 28, 2024	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	325.00	268.24*	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-
2	Non-convertible debentures	Long term	-	-	-	[ICRA]A+ (Stable); withdrawn	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-
3	LT market linked debentures	Long term	60.00	60.00*	PP-MLD [ICRA]A+ (Stable)	PP-MLD [ICRA]A+ (Stable)	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)	-	-	-
4	LT market linked debentures	Long term	20.00	-	PP-MLD [ICRA]A+ (Stable); withdrawn	PP-MLD [ICRA]A+ (Stable)	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)	-	-	-
5	Term loan	Long term	500.00	366.59*!	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-	-	-	-
6	Fund based/ non-fund-based others	Long term	1,000.00	0.0^	[ICRA]A+ (Stable)	-	-	-	-	-	-	-	-	-	-	-
7	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)
8	Non-convertible debentures	Long term	-	-	-	-	-	-	-	-	-	-	-	-	[ICRA]AA(CE) (Stable); Withdrawn	[ICRA]AA(CE) (Stable)

*Source: ICRA Research; LT – Long term; * Outstanding as on February 29, 2024; ! Includes undrawn amount of Rs. 70.5 crore; ^ Outstanding as on March 07, 2024;*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture (NCD; INE192U07293, INE192U07335, INE192U07343, yet to be placed)	Very simple
Non-convertible debenture (NCD; INE192U07210, INE192U07236, INE192U07301)	Simple
LT market-linked debenture (MLD)	Moderately complex
Term loan	Simple
Fund based/ non-fund-based others	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^

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+ (Stable)
INE192U07236	**NCD**	Sep-23-2021	Repo rate linked	Sep-23-2025	20.00	[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)
INE192U07335	**NCD**	Mar-24-2023	9.74%	Dec-23-2025	125.00	[ICRA]A+ (Stable)
INE192U07343	**NCD**	Mar-05-2024	9.75%	Mar-05-2026	100.00	[ICRA]A+ (Stable)
NA	**NCD***	NA	NA	NA	15.00	[ICRA]A+ (Stable)
INE192U08051	**Long-term MLD**	Sep-27-2021	BSE Sensex 30 linked	Oct-31-2024	30.00	PP-MLD[ICRA]A+ (Stable)
INE192U07285	**Long-term MLD**	Dec-20-2021	G-Sec linked	Jun-20-2024	30.00	PP-MLD[ICRA]A+ (Stable)
NA	**Long-term MLD***	NA	NA	NA	20.00	PP-MLD[ICRA]A+ (Stable); withdrawn
NA	**Term loan - 1**	Oct-10-2023	NA	Oct-31-2027	95.65	[ICRA]A+ (Stable)
NA	**Term loan - 2**	Oct-16-2023	NA	Oct-30-2028	48.33	[ICRA]A+ (Stable)
NA	**Term loan - 3**	Sep-20-2023	NA	Dec-27-2027	89.74	[ICRA]A+ (Stable)
NA	**Term loan - 4**	Aug-01-2023	NA	Aug-31-2028	47.37	[ICRA]A+ (Stable)
NA	**Term loan - 5**	Feb-06-2024	NA	Feb-18-2028	40.00	[ICRA]A+ (Stable)
NA	**Term loan - 6**	Mar-05-2024	NA	Mar-05-2028	45.50	[ICRA]A+ (Stable)
NA	**Proposed term loans**	NA	NA	NA	133.41	[ICRA]A+ (Stable)
NA	**Long-term fund based/non-fund-based others**	NA	NA	NA	1,000.00	[ICRA]A+ (Stable)

Source: KFIL, ICRA Research

** Yet to be placed; ^Instrument details are as on February 29, 2024 for existing bank facilities, NCDs and long-term MLD, and as on March 07, 2024 for enhancement amount of bank facilities*

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

Annexure II: 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.

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