

Press Release

Kogta Financial (India) Limited

27 December, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 55.00 Cr
Long Term Rating	SMERA BBB-/Positive (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of **'SMERA BBB-' (read as SMERA triple B minus)** on the Rs. 42.36 crore bank facilities of Kogta Financial India Limited (KFIL). SMERA has also assigned the long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** on the Rs. 12.64 crore bank facilities of Kogta Financial India Limited. The outlook is **'Positive'**.

Kogta Financial India Limited (KFIL) incorporated in 1996 is a Jaipur-based non-deposit taking non-banking finance company (NBFC-ND) that offers finance for purchase of new and used vehicles (commercial vehicles, multi utility vehicles, cars to name a few). Promoted by the Jaipur-based Mr. Kogta and family, the company provides loan against property and personal loans. It mainly operates in Rajasthan, Gujarat, Maharashtra and Madhya Pradesh through its network of 50 branches.

The ratings continue to draw comfort from the experienced management, established presence in the auto financing industry and diversified and secured loan portfolio. The rating is also supported by healthy capitalisation levels. The aforementioned strengths are partially offset by the company's moderate deterioration in the asset quality and exposure to intense competition in the auto finance industry.

List of key rating drivers and their detailed description

Strengths:

Established presence, experienced promoters

KFIL has an established presence of over two decades in the asset financing industry mainly with a secured portfolio. The promoter, Mr. Radha Krishan Kogta, commerce graduate has experience of around 17 years in the vehicle financing business. He is supported by Mr. Arun Kogta, Civil Engineer and M.B.A (Finance) with vast experience in marketing, credit risk analysis and collection and Mr. Varun Kogta, a qualified chartered accountant with about a decades experience in handling financial, operational, legal and administrative activities.

The company has around 50 branches spread across Rajasthan, Gujarat, Maharashtra and Madhya Pradesh that contributed around 50 percent to the total outstanding portfolio as on March 31, 2017. KFIL's total asset under management (AUM) including the securitised portfolio stood at Rs. 239.63 crore as on 31 March, 2017 as against Rs. 54.03 crore as on 31 March, 2014.

KFIL has around 11,314 active borrowers as on 30 June, 2017 and the borrower profile comprises farmers, small road transporters, taxi operators, first time borrowers, weaker sections, small scale

industry and enterprises, small mining operators, retail traders who face challenges in accessing vehicle finance from banks/financial institutions.

The outstanding loan book position of Rs. 208.36 crore constitutes commercial vehicle loans of ~72 percent, cars loan of ~17 percent, two-wheeler loans of ~2 percent, loan against property and personal loan as on 31 March, 2017.

The promoters have been able to raise funding from banks and capital markets. As on 30th November, 2017, the promoters raised Rs. 30.00 crore in the form of compulsory convertible preference share from IIFL Seed Venture fund. The promoters have also raised 15.00 crore in the form of unsecured subordinated debt during FY2016-17 and additional Non-Convertible Debenture (NCD) of Rs. 38.07 in the form of unsecured non-subordinated debt during FY2017-18.

Backed by economic growth, players such as KFIL are expected to gain from its strong network, scalable business model and relationships with banker and investors.

Healthy capitalisation levels

The company has reported Capital Adequacy Ratio (CAR) of 31.07 percent as on 31 March, 2017 as against 28.51 percent in the previous year. The Tier I capital adequacy ratio stood at 24.63 percent and Tier II stood at 6.44 percent as on 31st March, 2017. The healthy capitalisation levels are on account of the equity raised by the promoters to the tune of Rs. 30.00 crore as on 30th November, 2017 in the form of compulsory convertible preference shares. KFIL has also raised funding of 15.00 crore in the form of unsecured subordinated debt during FY2016-17. KFIL reported Net Interest Margin (NIM) of 9.23 percent in FY2017 as compared to 8.55 percent in the previous year. Apart from external fund infusion, the plough back of earnings will also support comfortable capital adequacy. The Return on Average Assets (RoAA) of the company has been moderate at 2.51 percent for FY2017 as compared to 2.46 percent in the previous year. Going forward, SMERA believes that KFIL will maintain healthy capital adequacy supported by the continuous capital infusion and moderate profitability.

Weaknesses

Moderate deterioration in the asset quality

The company has reported moderate deterioration in the asset quality as the gross non-performing assets (GNPA) ratio stood at 2.22 percent as on 31st March, 2017 as compared to 1.77 percent in the previous year. Also, the net non-performing assets (NNPA) ratio stood at 1.98 percent as on 31st March, 2017 as compared to 1.60 percent in the previous year. The Portfolio at Risk (PAR) has been greater than 90 days of 4.15 per cent as on 31 March, 2017 as compared to 3.43 per cent as on 31 March, 2016. The Provisioning Coverage Ratio (PCR) stood at 10.81 percent as on 31st March, 2017 as compared to 9.60 percent in the previous year. The gradual tightening of the asset classification norms from 150 to 120 days have also contributed to spike in the NPA levels.

Exposure to intense competition in the auto finance industry

KFIL is exposed to intense competition from existing banks and NBFCs who have an established presence in the auto financing industry. The company also faces competition from captive finance companies i.e. financing arms of the automobile manufacturers. The company has presence mainly in Rajasthan, Gujarat and Maharashtra therefore the scale up in operations will depend on the level of economic activity and spending patterns of the customers in these states.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company for arriving at the rating.

Applicable Criteria

- Non-Banks Financing Entities– <https://www.smera.in/criteria-nbfc.htm>
- Default Recognition - <https://www.smera.in/criteria-deafault.htm>

Outlook: Positive

SMERA believes that the outlook on KFIL's rated facilities will be 'Positive' over the medium term owing to the established presence and experienced promoters in the auto financing industry. The ratings may be upgraded in case of significant scaling up of operations while maintaining or improving its profitability margins and asset quality. Conversely, the outlook may be revised to 'Stable' in case the company faces challenges in arresting deterioration in asset quality or faces profitability pressures.

About the Rated Entity –Key Financials

Particulars	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	242.04	154.58	97.63
Total Income	Rs. Cr.	22.01	13.22	9.70
Profit after Tax (PAT)	Rs. Cr.	4.97	3.11	2.98
Net Worth	Rs. Cr.	53.69	28.51	25.98
Return on Assets (RoA)	(%)	2.05	2.01	3.05
Return on Net Worth(RoNW)	(%)	12.10	11.41	12.34
Total Debt/Tangible Net Worth (Gearing)	Times	3.33	4.26	2.70
Gross NPA	(%)	2.22	1.77	1.17
Net NPA	(%)	1.98	1.60	1.05
Net Worth/ Net NPA	Times	13.02	12.01	26.31

Status of non-cooperation with previous CRA (if applicable): None

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
6 September, 2016	Cash Credit	Long Term	50.00	SMERA BBB-/Positive (Reaffirmed)
	Working Capital Demand Loan	Long Term	5.00	SMERA BBB-/Positive (Reaffirmed)
	Fixed Deposit Program	Long Term	6.00	SMERA FB+ (Withdrawn)
18 March, 2016	Cash Credit	Long Term	50.00	SMERA BBB-/Positive (Reaffirmed)
	Working Capital Demand Loan	Long Term	5.00	SMERA BBB-/Positive (Reaffirmed)
23 March, 2015	Cash Credit	Long Term	50.00	SMERA BBB-/Stable (Assigned)
	Working Capital Demand Loan	Long Term	5.00	SMERA BBB-/Stable (Assigned)

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A	40.00 (reduced from Rs. 50.00 crore)	SMERA BBB-/Positive (Reaffirmed)
Demand Loan	N.A	N.A	N.A	2.36 (reduced from Rs. 5.00 crore)	SMERA BBB-/Positive (Reaffirmed)
Term Loan	N.A	N.A	N.A	10.00	SMERA BBB-/Positive (Assigned)
Proposed Facility	N.A	N.A	N.A	2.64	SMERA BBB-/Positive (Assigned)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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