

Press Release

KIFS Housing Finance Private Limited

November 29, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its '**ACUITE BBB+**' (read as **ACUITE triple B Plus**) rating to the Rs 25.00 Cr. long-term bank facilities of KIFS Housing Finance Private Limited (KIFS Housing). The outlook is '**Stable**'.

Analytical Approach

For arriving at its rating, Acuite has considered the standalone business and financial risk profile of KIFS Housing.

About the company

KIFS Housing, incorporated in November 2015, is an Ahmedabad based housing finance company (HFC) registered with National Housing Bank (NHB). It primarily focuses on affordable housing segment. KIFS Housing operates majorly in 4 states through 29 branches. The geographies targeted are periphery of Tier 1 and 2 and Tier 3, 4, 5 towns. KIFS Housing has majorly two products - home loans and loan against property (LAP). KIFS Housing had 1575 borrowers and loan book of Rs. 125.31 Cr as on 30th September 2018.

KIFS Housing is promoted by the Khandwala group. The group is engaged in the businesses of capital markets activities with presence in segments such as stocks and commodities broking, bullion trading, arbitrage and portfolio management services as well as real estate business. KIFS Housing is owned by KIFS International LLP through its promoters, 'Rajesh Khandwala', 'Vimal Khandwala' and 'Kinnary Khandwala'.

List of key rating drivers and their detailed description:

Strengths:

Comfortable capitalisation

KIFS Housing has comfortable capitalisation primarily supported by the steady capital infusion from KIFS international LLP. The promoters have infused Rs. 99.93 Cr in the company as on 31st March 2018 and are expected to infuse additional capital of Rs. 250 Cr in next 3 years in phased manner to support the growth plans. Given the moderate growth plans, the company's gearing is expected to be around 2 times over the next three years and is expected to be around 4 times over the medium term as it increases its scale of operations.

KIFS Housing had a net worth and gearing of Rs. 100.46 Cr and 0.28 times as on 31st March 2018. Its capital adequacy ratio stood at 107.37% as on 31st March 2018. The internal accruals are expected to remain modest as the company's profitability will be impacted by the steady investments to support the scaleup of the operations over the medium term.

Acuite believes that KIFS Housing's comfortable capitalisation will be backed by regular equity infusion and will provide cushion against asset side risks.

Experienced Management

KIFS Housing has an experienced management team having good understanding of housing finance business, and specifically affordable housing finance segment. It is led by Mr. Swarnpal Singh Bais, managing director and CEO, who has around 20 years of overall experience and of which more than 15 years is with various banks and HFCs. The senior leadership team of the company comprises of individuals having more than one decade of experience across various industries including housing finance segment. The board of directors play an active role in overseeing the company's operations including strategic decisions and policy formulation, and risk management.

Acuité believes that the strong experience of KIFS Housing's professional management team will enable the company to scale-up its operations while managing the risks inherent in the business.

Geographically diversified operations

KIFS Housing has a geographically diversified operations with presence in the states of Maharashtra, Gujarat, Madhya Pradesh and Rajasthan through 29 branches currently and planned expansion to 48 branches by end of FY2019. Maharashtra, Gujarat, Madhya Pradesh and Rajasthan constituted around 38.76 percent, 12.19 percent, 32.22 percent, and 16.83 percent of the portfolio, respectively, as on 30th September 2018. The company plans to expand to other new states as it scales-up its operations over the medium term.

Weaknesses:

Initial stage of operations and exposure to high competitive intensity

KIFS Housing started operations in July 2017. Its loan portfolio stood at Rs. 125.31 Cr as 30th September 2018 as against Rs. 67.04 Cr on 31st March 2018. It is primarily focused on offering housing loans (83% of the portfolio as on 30th September 2018) and LAP (17%). It does not intend to offer builder loans over the next few years given its relatively small scale of operations in relation to the relatively high inherent risks in the segment.

KIFS Housing will benefit from the strong demand potential for affordable housing finance segment over the medium to long term given the Government's push for 'Housing for All' and the various incentives offered for the segment. While the company has strong growth plans (albeit on a small base), it will face challenges on account of the strong competitive intensity in the affordable housing segment given the emergence of the large number of HFCs, thereby impacting its pricing ability. This coupled with any sharp deterioration in asset quality may adversely impact the company's profitability.

Acuité believes that KIFS Housing's ability to steadily scale-up its operations in a profitable manner while managing the risks associated with the start-up nature of the operations will remain a key monitorable. Acuité also believes the company's ability to mobilize funding at competitive rates to support its growth plans will remain a key monitorable.

Limited seasoning of portfolio

KIFS has an unseasoned loan portfolio having started operations in FY2018. Furthermore, the company may face asset quality-related challenges given its strong growth plans and its borrower profile comprising of low-income and economically weaker section customers. Given the long tenure of the loan book, the company's ability to maintain stable asset quality will be established only over the medium term. Any sharp deterioration in the asset quality will adversely impact the company's profitability and will remain a key monitorable.

Nevertheless, the company has put in place good systems and processes to manage the asset quality risks. It follows a hub and spoke model with decentralized decision making process to enable quick turnaround times. All the credit decisions are taken by the credit committees based on the pre-defined approval matrix including for deviations. It has also significantly leveraged technology for customer sourcing, credit appraisal, portfolio monitoring and collections, and client servicing. It has also put in place measures to monitor compliance with the laid down policies and processes, which enables early identification of deviations and the remedial measures.

Acuité believes that KIFS Housing's ability to maintain healthy asset quality while growing its loan portfolio

will remain a key rating sensitivity factor.

Liquidity Position

KIFS Housing's loan book is currently funded mostly from the equity infusion from the promoters and hence currently has very low debt. The company is expected to have very low debt repayment obligation in the next 6 to 12 months since it is in the process of raising bank debt to support its growth plans. The company is expected to maintain adequate unutilized bank lines to meet the business and operational requirements including for debt servicing purposes.

Outlook: Stable

Acuite believes KIFS Housing will maintain 'Stable' outlook over the medium term on account of the strong financial support from the promoters and its experienced management team. The outlook may be revised to 'Positive' if there is significant improvement in scale of operation while maintaining asset quality and profitability. Conversely, the outlook may be revised to 'Negative' if there is any reduction in the support from the promoters or if there is higher than expected deterioration in the company's asset quality or the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18	FY17	FY16
Total Assets	Rs. Cr.	132.13	11.77	11.26
Total Income (Net of Interest Expense)	Rs. Cr.	6.69	0.84	0.08
PAT	Rs. Cr.	0.19	0.50	-0.17
Net Worth	Rs. Cr.	100.46	11.75	11.24
Return on Average Assets (RoAA)	(%)	0.26	4.37	-2.94
Return on Net Worth (RoNW)	(%)	0.34	4.38	-2.95
Total Debt/Tangible Net Worth (Gearing)	Times	0.28	0.00	0.00
Gross NPAs	(%)	0.00	0.00	0.00
Net NPAs	(%)	0.00	0.00	0.00

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Non-banking Financing Entities- <https://www.acuite.in/view-rating-criteria-10.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Rating/ Outlook
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Term Loan	NA	NA	NA	4.75	ACUITE BBB+/ Stable (Assigned)
Proposed Bank Facility	NA	NA	NA	20.25	ACUITE BBB+/ Stable (Assigned)

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About Acuite Ratings & Research:

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