

Press Release

KIFS Housing Finance Private Limited

December 05, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 160.00 Cr. (Enhanced from Rs. 80.00 Cr.)
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Reaffirmed and Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) to the Rs. 160.00 crore bank facilities of KIFS HOUSING FINANCE PRIVATE LIMITED (KHFPL). The outlook is '**Stable**'.

Ahemdebad based KHFPL, incorporated in November 2015, is a housing finance company (HFC) registered with National Housing Bank (NHB). It primarily focuses on affordable housing segment. KHFPL operates majorly in 5 states through 48 branches as on September 30, 2019. The geographies targeted are periphery of Tier 1 and 2 and Tier 3, 4, 5 towns. KHFPL has majorly two products - home loans and loan against property (LAP). Currently, it has 3711 borrowers and loan book of Rs. 287.91 Cr as on September 30, 2019.

KHFPL 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 any movable/ immovable properties. KHFPL is owned by KIFS International LLP through its promoters, 'Rajesh Khandwala', 'Vimal Khandwala' and 'Kinnary Khandwala'.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of KHFPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

KHFPL has an experienced management team with experience in housing finance business, specifically affordable housing finance segment. It is led by Mr. Swarnpal Singh Bais, Managing Director and CEO, who has over two decades of experience and of which more than a decade with various HFCs. The senior leadership team of the company also 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.

• Comfortable capitalisation

KHFPL has comfortable capitalisation primarily supported by steady capital infusion from the parent company, KIFS international LLP. The promoters have infused ~Rs. 200 Cr into the company as on September 30, 2019 and are expected to infuse additional capital of Rs. 125 Cr in next 2 years in phased manner to support the growth plans. Its capital adequacy ratio stood at 125.14 per cent as on 31 March, 2019 as against 107.37 per cent as on 31 March, 2018 this has increased to 152.46 percent as on September 30, 2019 mainly on account of capital infusion. Its net worth and gearing stood at Rs. 237.71 Crore and 0.26 times as on September 30, 2019 as against as on Rs. 174.65 Cr and 0.28 times as on 31 March, 2019 and Rs. 100.46Cr and 0.28 times as on 31 March, 2018. The company's loan portfolio stood at Rs. 182.82 Crore as on March 31, 2019 and is expected to double by FY2020, given the moderate growth plans, the company's gearing is

expected to be below ~ 2 times over the near to medium term.

Acuite believes that KHFC will continue to maintain healthy capitalisation levels backed by regular equity infusion.

• **Granular nature of loan book coupled with geographically diversity across portfolio:**

KHFPL has a geographically diversified operations spread across 48 branches in 48 districts of Maharashtra, Gujarat, Madhya Pradesh, Uttar Pradesh and Rajasthan as on September 30, 2019 and has planned expansion of additional 13 branches by end of FY2020. As on September 30, 2019 the company had a borrower base of 3711 borrowers with an average ticket size of ~Rs.9 Lakhs. The company has a moderately concentrated portfolio in Maharashtra with around 44.60 per cent (40.48 percent as on March 31, 2019) followed by Madhya Pradesh at 25.30 per cent (28.76 percent as on March 31, 2019), while Rajasthan, Uttar Pradesh and Gujarat constituted the remaining 30.1 per cent (30.76 percent as on March 31, 2019) of the portfolio, respectively, as on September 30, 2019. The company plans to expand to other new states as it scales-up its operations over the medium term.

Acuite believes that KHFC will benefit from the granular nature and geographically diversified portfolio.

Weaknesses

• **Limited vintage of portfolio**

KIFS established operations in FY2018 and commenced disbursements from July 2017, the company has a loan book of Rs. 287.91 Crore as on September 30, 2019 Rs. 182.82 Cr. as on March 31, 2019 and has disbursed Rs. 263.82 crore in the last 18 months ending September, 2019. The borrower base comprises mainly of salaried customers (80 percent) and balance comprises of self-employed customers. The performance of the portfolio will be demonstrated only over a period of time, besides the concerns on its asset quality, the loan portfolio is also susceptible to risks of prepayments, balance transfers to other NBFC's this is also likely to impact the loan book growth. Any adverse movement in the asset quality will impact the company's profitability and hence will remain a key monitorable.

Nevertheless, the company has put in place good systems and processes to manage the asset quality risks. 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 on 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.

Acuite believes that KHFC's continued adherence to stringent process at growth and monitoring levels will be critical in maintaining growth and asset quality and will remain a key rating sensitivity factor.

• **Growth trajectory linked to the ability to maintain optimal funding mix; cost of funding and tenure of funding to be crucial determinants of profitability**

KHFC operates in affordable housing finance segment across five states and is thus exposed to competition from banks and other institutions operating in these states. Since there is limited scope of differentiation in these loan products, relatively new players like KHFPL can maintain a competitive edge by keeping their cost of funding and operating expenses at optimal levels.

KHFC's competitive strength will be derived from its ability to maintain optimal cost of funding by raising funds from banks and financial institutions at competitive rates. Besides the pricing the company's ability to attract debt of long tenure is important since most of its loans are of 10-15 years whereas debt raised from banks are of shorter tenure i.e. of 5 years. The recent NBFC crisis, has made it further challenging to raise funding from the banks and other financial institutions at competitive rates.

At present the company has relied mostly on promoters funding which has largely insulated it from interest rate risks and asset liability management risks. Going forward as the company leverages its existing net worth base to scale up its operations, maintaining the optimal mix of debt in terms of tenure and pricing will be a key determinant of its future credit profile.

Liquidity Position: Strong

The company has adequately matched asset liability profile as on September 30, 2019 with majority of the portfolio currently funded with equity. Further, the liquidity profile is supported by unutilised bank lines of over Rs. 89.00 crore to meet business need or in case of any mismatches.

Rating Sensitivities

- Growth in Loan portfolio
- Maintaining healthy Asset quality

- Gearing to remain below 2x

Material Covenants

None

Outlook: Stable

Acuite believes KHPL will maintain 'Stable' 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	227.91	132.13	11.77
Total Income (Net of Interest Expense)	Rs. Cr.	20.49	6.32	0.84
PAT	Rs. Cr.	4.10	0.19	0.50
Networth	Rs. Cr.	174.65	100.46	11.75
Return on Average Assets (RoAA)	(%)	2.28	0.26	4.37
Return on Net Worth (RoNW)	(%)	2.98	0.34	4.38
Total Debt/Tangible Net Worth (Gearing)	Times	0.28	0.28	0.00
Gross NPA's	(%)	0.11	-	-
Net NPA's	(%)	-	-	-

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
27 th August 2019	Term loan	Long Term	4.75	ACUITE BBB+/Stable (Reaffirmed)
	Term loan	Long Term	5.00	ACUITE BBB+/Stable (Reaffirmed)
	Term loan	Long Term	50.00	ACUITE BBB+/Stable (Assigned)
	Term loan	Long Term	10.00	ACUITE BBB+/Stable (Assigned)
	Term loan	Long Term	5.00	ACUITE BBB+/Stable (Assigned)

	Proposed Bank Facility	Long Term	5.25	ACUITE BBB+/Stable (Assigned)
29 th Nov, 2018	Term Loan	Long Term	4.75	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	20.25	ACUITE BBB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loan	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE BBB+/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB+/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB+/Stable (Assigned)
Term loan	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB+/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.25	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research:

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