

Press Release

KIFS Housing Finance Private Limited

July 28, 2020



Rating Reaffirmed and Assigned; Outlook Revised

Total Bank Facilities Rated*	Rs. 192.50 Cr. (Enhanced from Rs. 160.00 Cr.)
Long Term Rating	ACUITE BBB+/ Outlook: Positive (Reaffirmed and Assigned; Outlook Revised)
Total Non-Convertible Debentures Rated*	Rs. 37.50 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Positive (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) on the Rs. 192.50 crore bank facilities of KIFS Housing Finance Limited (KHFL). The outlook is revised from '**Stable**' to '**Positive**'.

Acuité has also assigned the long-term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) on the Rs. 37.50 crore Non-convertible Debenture issued by KIFS Housing Finance Limited (KHFL). The outlook is '**Positive**'.

Reason for revision in Outlook

The revision in outlook factors in expected buoyancy in demand for affordable housing segment once the economic climate in the country stabilises and KHFL's ability to benefit from the growth in demand for affordable housing. KHFL has a healthy capital structure and has demonstrated the ability to attract funding from banks and financial institutions. The promoters have been continuously supporting the initial stage of operations through significant equity infusion (~Rs. 250 Cr) over the past 2 years; this has enabled the company, strengthen its capital structure alongside ramping up of its scale of operations. The company's Capital Adequacy Ratio (CAR) stood at 123.75% as on March 31, 2020, comprising mainly of Tier I capital and gearing 0.42 times. Over the past year, the company has also demonstrated its ability to raise debt from various public and private banks through term loans and also from national Housing Bank through refinancing scheme.

Acuité believes that the company is well-positioned to leverage its capital structure and benefit from the demand for affordable housing once economic revival in the country commences.

About the company

Ahemdebad based KHFL, incorporated in November 2015, is a housing finance company (HFC) registered with National Housing Bank (NHB). It primarily focuses on the affordable housing segment. KHFL is promoted by the KIFS (Khandwala Integrated Financial Services) 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. KHFL is owned by KIFS International LLP through its promoters, Rajesh Khandwala, Vimal Khandwala and Kinnary Khandwala. KHFL operations are spread across 46 branches located in 5 states as on March 31, 2020. The geographies targeted are the periphery of Tier 2 and Tier 3, towns. KHFL has majorly two products - home loans and loan against property (LAP). Currently, it has 4258 borrowers and loan book of Rs. 338 Cr as on March 31, 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Comfortable capitalisation supported by resourceful promoters**

KHFL commenced its operations in the affordable housing finance segment in FY2018, with a focus on extending credit in the affordable housing finance segment. Over the past two years of operations, the company has received continuous support in the form of periodic capital infusion from the promoter group. The company is promoted by the KFIS group through the parent company, KIFS international LLP. The promoters have infused ~Rs. 250 Cr into the company as on March 31, 2020 and are expected to infuse additional capital of Rs. 100 Cr in next 2 years in a phased manner to support the growth plans as and when required. After exit of KHFL's CEO in Q4FY2020 the day to day operations is managed by promoter director Mr. Vimal Khandwala. The company has also demonstrated its ability to raise debt from banks and financial institutions; it has raised debt of ~Rs. 150 Cr from various public and private banks and through refinancing schemes of National housing bank. KHFL's capital adequacy ratio stood at 123.75 percent as on March 31, 2020 as against 125.14 per cent as on 31 March, 2019. Its net worth and gearing stood at Rs. 269.94 Crore and 0.42 times as on March 31, 2020 as against as on Rs. 174.65 Cr and 0.28 times as on 31 March, 2019. The company's loan portfolio stood at Rs. 338.19 Cr as on March 31, 2020 as against 182.82 Crore as on March 31, 2019. Disbursement has slowed down in the first quarter FY21 due to the pandemic situation, however, expected to pick up in the second half of FY21, assuming revival in the economic situation. The company's gearing is expected to be below ~ 2 times over the near to medium term.

Acuité believes that KHFC will continue to maintain healthy capitalisation levels backed by support from the promoters.

- **Medium to long term prospects intact; short term may face headwinds**

KHFL entered into the lending space to extend credit in the affordable housing finance segment, the company over the past two years has built a granular portfolio with maximum ticket size up to Rs. 35 Lakhs. Over the past few years, affordable housing finance segment has received the Government's thrust through various incentives such as the Pradhan Mantri Awas Yojana (PMAY) scheme.

The pandemic situation in the country has impacted the cash flows of many borrowers because of job cut/losses, this has affected the cash flows of the salaried segment. Besides the impact on the reasonably steady salaried segment, the cash flows of the self-employed segment have also been impacted. This is likely to cause certain disruptions in the near term in terms of collection efficiency and possible asset quality pressures. However, once the economic revival commences the demand for housing, especially in the affordable housing, is expected to improve.

KHFL has a prudent lending philosophy as seen in the granular nature of its portfolio, low Loan to value (LTV) ratio and focuses on lending towards salaried class borrowers. The company currently has no real estate developer loans in its portfolio. This helps the company have a relatively less risky asset portfolio. As on March 31, 2020 the company had a borrower base of 4258 (2368 as on March 31, 2019) borrowers with an average ticket size of ~Rs.10 Lakhs. KHFLs portfolio comprises borrowers who are mainly from the salaried class (~82% of the portfolio as on March 31, 2020) with comfortable Fixed obligation to income ratio (FOIR) (average less than 50%) and Loan to value (LTV) ratio (average ~55%).

Acuité believes that KHFL will benefit from its prudent lending philosophy along with the governmental thrust in the affordable housing segment while it focuses on growth in its loan portfolio.

Weaknesses

- **Limited seasoning of a portfolio; Marginal asset quality pressures likely over the near term**

KIFS established operations in FY2018 and commenced disbursements from July 2017; the company has a loan book of Rs. 338 Crore as on March 31, 2020 as against Rs. 182 Cr. as on March 31, 2019. The borrower base comprises mainly of salaried customers (82%) and balance comprises of self-employed customers. The performance of the portfolio will be demonstrated only over a period of time. With the outbreak of COVID-19 and the subsequent lockdowns in the country, there has been severe disruptions in the economic activities across the country. Acuité observes that the company has been able to improve its actual collection to scheduled collection percentage from ~70% in April, 2020 to ~86% in June 2020. Any further disruption of activities in the country may impact the asset quality of lenders such as KHFL. This may result in higher credit costs and moderation in profitability margins, notwithstanding the adequate capital buffers available to absorb any adverse income shocks. Besides the concerns on its asset quality, the loan portfolio is also susceptible to risks of prepayments, balance transfers to other NBFCs/Banks; this is also likely to impact the loan book growth.

Acuité believes that KHFLP's ability to contain asset quality parameters and credit costs while maintaining growth in its scale of operations will be a key rating monitorable.

Liquidity Position: Adequate

The company has adequately matched asset-liability profile as on March 31, 2020 with the majority of the portfolio currently funded with equity. The company had liquidity of ~Rs. 32.32 Cr as on June 30, 2020 in liquid investments and unencumber cash and bank balances. The company had not availed moratorium from any of its lenders through the special dispensation scheme and has met all its obligations. Further, the liquidity profile is supported by fresh drawdowns received in the first quarter FY21 of ~Rs. 18 Cr. and has sanctions of ~Rs. 37.5 Cr through the TLTRO schemes.

Rating Sensitivities

- Growth in Loan portfolio
- Maintaining healthy Asset quality
- Gearing to remain below 2x

Material Covenants

KHFL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from the client via mail dated July 24, 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Outlook: Positive

Acuité believes that KHFL will benefit from its strong capitalisation levels and expected continuous support from its promoters. The rating will be upgraded if the company is able to contain its asset quality pressures within reasonable levels and maintain its profitability parameters while scaling up its operations. Conversely, the outlook will be revised to stable in case, the company faces headwinds in containing its asset quality pressures and maintaining its profitability parameters due to high credit costs while significantly scaling up its operations.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	394.62	227.91
Total Income (Net of Interest Expense)	Rs. Cr.	42.15	20.49
PAT	Rs. Cr.	15.33	4.10
Networth	Rs. Cr.	269.94	174.65
Return on Average Assets (RoAA)	(%)	4.92	2.28
Return on Net Worth (RoNW)	(%)	6.90	2.98
Total Debt/Net Worth (Gearing)	Times	0.42	0.28
Gross NPA's	(%)	0.47	0.11
Net NPA's	(%)	0.38	-

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-52.htm>
- Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
05 th December, 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 (Reaffirmed)
	Term loan	Long Term	10.00	ACUITE BBB+/Stable (Reaffirmed)
	Term loan	Long Term	5.00	ACUITE BBB+/Stable (Reaffirmed)
	Term loan	Long Term	10.00	ACUITE BBB+/Stable (Assigned)
	Term loan	Long Term	15.00	ACUITE BBB+/Stable (Assigned)
	Term loan	Long Term	45.00	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	15.25	ACUITE BBB+/Stable (Assigned Assigned)
27 th August 2019	Term loan	Long Term	4.75	ACUITE BBB+/Stable (Reaffirmed)
	Term loan	Long Term	5.00	ACUITE BBB+/Stable (Assigned)
	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 (Reaffirmed)
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	29.09.2018	9.70%	30.09.2023	4.75	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)

Term Loan	23.04.2019	8.60%	23.02.2024	5.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
Term Loan	30.09.2019	10.00%	30.08.2024	10.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
Term Loan	23.07.2019	9.90%	21.07.2024	50.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
Term Loan	29.03.2019	10.05%	03.04.2024	10.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
Term Loan	29.12.2018	9.55%	29.12.2023	5.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
Term Loan	30.11.2019	10.00%	28.02.2025	15.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
Term Loan	13.12.2019	7.75%	01.01.2030	45.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
Term Loan	25-06-2020	7.05%	01.04.2025	15.00	ACUITE BBB+/Positive (Assigned)
Term Loan	10-07-2020	5.40%	20.05.2021	3.10	ACUITE BBB+/Positive (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	29.65	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+/Positive (Assigned)
Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB+/Positive (Assigned)

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About Acuité Ratings & Research:

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