

Press Release

Kerala State Industrial Development Corporation Limited

June 29, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 250.00 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 250.00 Cr proposed bank facilities of KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED (KSIDC). The outlook is '**Stable**'.

KSIDC was incorporated in 1961, by Government of Kerala (GoK) with the objective of facilitating and financing medium to large scale industries in the State. KSIDC offers financial assistance and support to service sectors like tourism, star category hotels, resorts, hospitals, infrastructure projects etc. In addition to project financing, KSIDC is also involved in creation of infrastructure facilities and investment promotion activities in the State. At present, KSIDC has 3 Industrial Growth Centres and 2 industrial parks in various parts of the State. Government of Kerala has 100 per cent holding in KSIDC. The head office of the Corporation is at Thiruvananthapuram and the Branch office is operated at Cochin. KSIDC provides services across all districts in Kerala. KSIDC is categorized as a Systematically Important Non-Deposit taking NBFC (NBFC-ND-SI) as per the norms of the RBI.

Analytical Approach

Acuité has considered a standalone approach while assessing the business and financial risk profile of KSIDC and has factored in financial, operational and managerial support it receives from Government of Kerala by virtue of being a state owned entity. The rating factors in the high degree of State Government holding in KSIDC along with the systemically important role played by the corporation in implementing the key financial and developmental objectives of the state.

Key Rating Drivers

Strengths

- **Ownership and Support from Government of Kerala**

KSIDC is a state owned corporation incorporated in 1961. The board of KSIDC includes representation from Government of Kerala. The Board of Directors comprises of bureaucrats appointed by the Government of Kerala. This indicates a strong level of managerial support from the Government of Kerala.

KSIDC's funding profile is supported by the State Government's moral obligation to support the capitalisation levels both on an ongoing basis and in the event of distress. The Government of Kerala is a 100 percent stakeholder in the corporation as on March 31, 2020 and is expected to support the corporation given its systemic importance in the government's efforts to step up industrial and economic activity in the state. KSIDC's capitalisation levels remained adequate at 147.67 percent as March 31, 2020 as against 130.48 percent as on March 31, 2019 and 47.69 percent as on March 31, 2018.

KSIDC is a Nodal Agency for several policy initiatives by the State Government of Kerala and is responsible to implement the policies announced in the annual state budget. The corporation in the past has operationalised various policy initiatives by GoK such as Kerala State Entrepreneurship Development/Startup Mission and Women Entrepreneur Development Mission. KSIDC reported a loan portfolio of Rs. 230.72 Cr. as on March 31, 2020 as against Rs. 212.34 Cr. as on March 31, 2019 and Rs. 204.46 Cr. as on March 31, 2018. The growth in loan portfolio of KSIDC in FY2020 has been modest at 8.65 percent.

The support from GoK is critical to the rating and therefore the credit profile of the state is of key importance. Kerala's fiscal deficit stood at 3.1 per cent of the GSDP for FY2018-19 (RE) (3.9 per cent during the previous year). The outstanding debt of Kerala state as a percentage of GSDP remained over 30 percent for 2018- 19 and 2017-18. The state's revenue deficit for 2018-19(RE) stood at 1.7 percent of GSDP (previous year 2.5 percent). The state's fiscal headroom has been further impacted by the recent natural calamities in FY2019, due to which the state had to seek approval for additional borrowing. While this is expected to put some pressure on Kerala's fiscal metrics over the near term, the overall fiscal health of the state over the medium term is expected to stay satisfactory. The state's key fiscal metrics i.e. fiscal deficit to GSDP and Debt to GSDP will remain key monitorables.

Acuite believes that KSIDC will continue to benefit from strong financial and managerial support from the State Government on an ongoing basis over the medium term.

Weaknesses

• Weak asset quality and modest profitability metrics

KSIDC's loan portfolio is concentrated towards the hospitality and the manufacturing segment which exposes KSIDC's performance to risks associated with the said sectors. The asset quality of KSIDC remains weak as reflected in elevated Net NPA of 15.33 percent as on March 31, 2020 (16.61 percent as on March 31, 2019). This is mainly due to operating challenges in these segments which has impacted the cash flows of the borrowers. While the asset quality continues to be weak, the Return on Average Assets (RoAA) stood at 3.73 percent in FY2020 as against 3.35 percent in FY2019. The corporation is also taking efforts to reduce the NPA levels by offering one time settlement to the delinquent borrowers. Additionally, the corporation is focusing on improving collection and recovery mechanism. Further, the corporation reported high Net Interest margin of 8.47 percent in FY2020 as against 7.35 percent in FY2019. The overall profitability continues to be supported by lower operating expenses to earning assets of 1.99 percent in FY2020 (previous year: 2.09 percent) along with no interest outflow as the corporation does not have any borrowings as on date.

Acuite believes the ability of the corporation to control slippages and increase the loan portfolio will be one of the key rating drivers.

Liquidity Position - Adequate

The business growth of KSIDC until FY20 has been supported by equity funds and therefore, the corporation was not dependent on debt. Hence, KSIDC has no significant term debt obligations over the near term. On the asset side, 15 percent of KSIDC's book is under moratorium till August 31, 2020 under RBI's special dispensation scheme. The ability of KSIDC in attaining optimal collection efficiency post moratorium will be critical in the sustenance of a comfortable liquidity profile. The company currently has cash and cash equivalents of Rs. 255.58 Cr. as on March 31, 2020. Besides, KSIDC has investment in quoted and unquoted shares of Rs.446.50 Cr.

Rating Sensitivities

- Credit profile of Government of Kerala (GoK) and timely support to KSIDC
- Improvement in asset quality along with a sustainable growth in the lending portfolio

Material Covenants

None

Outlook: Stable

Acuite believes that KSIDC will maintain a 'Stable' outlook over the medium term mainly supported by the continued support from the GoK. The outlook may be revised to positive in case of significant improvement in the operating performance of KSIDC backed by improved asset quality. The outlook may be revised to negative in case of events which may impinge on GoK's ability to provide financial and operational support to KSIDC.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Total Assets	Rs. Cr.	981.04	912.15
Total Income*	Rs. Cr.	56.56	55.25
PAT	Rs. Cr.	35.33	33.81
Net Worth	Rs. Cr.	767.81	703.72
Return on Average Assets (RoAA)	(%)	3.73	3.35
Return on Average Net Worth (RoNW)	(%)	4.80	4.57
Total Debt/Tangible Net Worth (Gearing)	Times	0.00	0.00
Gross NPA	(%)	53.51	52.01
Net NPA	(%)	15.33	14.61

*Total Income equals to Net Interest Income plus other income

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of Non-Banking Financing Activities- <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Criteria for Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>
- State Government Support - <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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.)	Ratings/Outlook
Proposed Term loans	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A-/ Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Aishwarya Phalke Senior Analyst - Rating Operations Tel: 022-49294031 aishwarya.phalke@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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