

Press Release

Kerala State Industrial Development Corporation Limited

September 28, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs. 250.00 Cr.
Long Term Rating	ACUITE A/ Stable (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating on the Rs. 250.00 Cr proposed bank facilities of Kerala State Industrial Development Corporation Limited (KSIDC) to '**ACUITE A**' (read as **ACUITE A**) from '**ACUITE A-**' (read as **ACUITE A minus**). The outlook is '**Stable**'.

Reason for Upgrade

The rating upgrade factors in KSIDC's growth in loan portfolio which stood at Rs. 626.96 Cr. as on March 31, 2021 from Rs. 377.27 Cr. as on March 31, 2020 and improvement in capitalization levels marked by networth of Rs. 813.87 Cr. as on March 31, 2021 from Rs. 643.23 Cr. as on March 31, 2020. The rating continues to factor in Government of Kerala's (GoK) support and KSIDC's strategic importance in the development of physical and social infrastructure required for industrial growth in the state. The rating factors in KSIDC's role as a nodal agency for foreign and domestic investments in Kerala. KSIDC made sanctions of Rs. 302.50 Cr. during FY2020 and Rs. 339.34 Cr. during FY2021. Going forward, KSIDC would be availing credit lines from Banks to further supplement its growth strategy.

The rating is however constrained with high levels of GNPA and NNPA's of KSIDC. The corporation's NNPA as on March 31, 2021 stood at 10.06 percent as compared to 13.32 percent as on March 31, 2020. KSIDC's ability to continue to demonstrate growth in loan assets while containing asset quality risks will be key credit monitorable.

About KSIDC

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

Acuite 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 (GoK). 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, 2021 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 marked by Capital Adequacy Ratio (CAR) at 85.54 percent as March 31, 2021 (provisional).

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 growth in its loan portfolio which stood at Rs. 626.96 Cr. as on March 31, 2021 as compared to Rs. 377.27 Cr. as on March 31, 2020. The growth in loan portfolio of KSIDC in FY2021 has been as a result of the Corporation's approach towards diversifying the loan portfolio as well as enlarging the clientele base. KSIDC made sanctions of Rs. 302.50 Cr. during FY2020 and Rs. 339.34 Cr. during FY2021. Loan portfolio as on June 30, 2021 stood at Rs. 673.23 Cr.

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 3.0 per cent of the GSDP for FY2019-20 (RE) (3.1 per cent during the previous year). The outstanding debt of Kerala state as a percentage of GSDP remained over 30 percent for FY2019-20 and FY2018-19. The state's revenue deficit for FY2019-20 (RE) stood at 2.0 percent of GSDP (FY 1.7 percent). The state's fiscal headroom has been further impacted by the recent natural calamities in FY2021, 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 10.06 percent as on March 31, 2021 which improved from 13.32 percent as on March 31, 2020. 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 3.27 percent in FY2021 (provisional) as against 4.73 percent in FY2020. 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 Net Interest Margin (NIM) of 5.95 percent in FY2021 as against 7.14 percent in FY2020. The overall profitability continues to be supported by lower operating expenses to earning assets of 2.03 percent in FY2021 (FY 3.55 percent).

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

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

KSIDC is subject to covenants stipulated by its lenders in respect of various parameters like capital structure, asset quality, among others.

Liquidity Position - Adequate

The business growth of KSIDC until FY2020 has been supported by equity funds and therefore, the corporation was not dependent on debt. In FY2021, KSIDC availed term loan facility and overdraft facility. Average utilization of overdraft facility for 6 months ended August 31, 2021 was ~3.21 percent. KSIDC has received fresh sanction of term loan facility to the tune of Rs. 250 Cr. which the corporation has partially availed and will be having an initial moratorium period for principal repayment of 12 months as per sanction terms. KSIDC has unencumbered cash & bank balances of ~Rs. 55.88 Cr. and has investments in shares of various quoted and unquoted companies amounting to ~Rs. 469.87 Cr. as on March 31, 2021. As per ALM statement dated June 30, 2021 KSIDC has no negative cumulative mismatches in any time buckets in near to medium term. Further, optimal collection efficiency will be critical in the sustenance of a comfortable liquidity profile for KSIDC.

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

Particulars	Unit	FY21 (Provisional)	FY20 (Actual)
Total Assets	Rs. Cr.	1043.76	766.13
Total Income*	Rs. Cr.	56.46	58.21
PAT	Rs. Cr.	29.59	39.66
Net Worth	Rs. Cr.	813.87	643.23
Return on Average Assets (RoAA)	(%)	3.27	4.73
Return on Average Net Worth (RoNW)	(%)	4.06	5.89
Total Debt/Tangible Net Worth (Gearing)	Times	0.01	-
Gross NPA	(%)	33.07	52.03
Net NPA	(%)	10.06	13.32

*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>

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. Cr.)	Ratings/Outlook
29-Jun-2020	Proposed Term Loan	Long Term	250.00	ACUITE A-/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A/ Stable (Upgraded)

Contacts

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About Acuité Ratings & Research:

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