

Press Release

Karnataka State Finance Corporation

March 28, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	700.00	ACUITE AA Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	700.00	-	-

Rating Rationale

Acuite has reaffirmed a long-term rating of '**ACUITE AA**' (read as **ACUITE double A**) on the Rs. 700.00 crore bank facilities of Karnataka State Finance Corporation. The outlook is '**Stable**'.

Rating Rationale

The rating continues to derive strength from strong parentage of Government of Karnataka (GoK) holding 95.91 percent stake as on December 31, 2022 and the continued capital support extended to KSFC at regular intervals. During FY22, the state of Karnataka infused capital of Rs. 54.60 Cr into the company resulting into comfortable capitalization levels of 49.58 percent as on September 30, 2022. As a result of regular capital infusion, KSFC has comfortable capital structure. KSFC has been able to maintain gearing at lower levels at 0.86 times as on December 31, 2022. The rating favorably factors adequate liquidity position of KSFC to meet its current obligations and moderate profitability. KSFC has Rs. 188.57 crore as cash and bank balance as on December 31, 2022. KSFC's PAT improved to Rs. 66.61 Cr in FY2022 as compared to Rs. 42.90 Cr in FY2021. Further the PAT stood at Rs. 81.45 Cr during 9MFY23.

These strengths are partially offset by modest asset quality parameters marked by GNPA and NNPA of 7.79 percent and 5.17 percent respectively and decline in AUM as a result of lower disbursements. Further, KSFC's restructured assets as per cent of portfolio stood at 26.13 percent as on December 31, 2022. Going forward, continued support from GoK, KSFC's ability to profitably grow its loan portfolio while containing additional slippages will be a key monitorable.

About the company

Karnataka State Finance Corporation (KSFC) was established in 1959 under the SFCs' Act, 1951 to provide long term loans to Micro, Small and Medium Enterprises (MSMEs) in the State of Karnataka. The loans are provided for establishment of new industries and expansion, modernization, diversification of existing industries. The corporation plays a pivotal role in the balanced regional development, empowerment of women, first generation entrepreneurs and socially disadvantaged sections of the Society.

Government of Karnataka (GoK) is the majority stakeholder with 95.91 percent holding, 4.06 percent held by SIDBI and the balance is held by banks and other financial institutions. As on December 31, 2022, the corporation operates in 30 districts of Karnataka with a network of 32 branches. Dr. Ekroop Caur IAS is the current Managing Director of KSFC

Standalone (Unsupported) Rating

ACUITE BBB/Stable

Analytical Approach

Acuité has considered the standalone approach while assessing the business and financial risk profile of KSFC and has factored in the financial and managerial support it receives from Government of Karnataka by virtue of being a State Financial Corporation. The rating factors in the high degree of government holding, existing and proposed guarantee of borrowings for KSFC.

Key Rating Drivers

Strength

Ownership and Support from Government of Karnataka:

KSFC is a state finance corporation established under the SFC Act, 1951. Around 95.91 percent shareholding is held by Government of Karnataka followed by 4.06 percent held by SIDBI and balance is held by banks and financial institutions, as on December 31, 2022. The primary objective of KSFC is to provide loans for establishment of new industries and expansion, modernization, diversification of existing industries in the state of Karnataka. It also has various entrepreneurial schemes to support various entrepreneurs. The board of KSFC primarily comprises representation from Government of Karnataka. The Board of Directors comprises of 4 bureaucrats appointed by the Government of Karnataka and the others representing SIDBI, LIC of India, Apex Bank and a Chartered Accountant.

KSFC's loan portfolio stood at Rs. 2045.23 Cr as on December 31, 2022 as against Rs. 2100.15 Cr. as on March 31, 2022 and Rs. 2187.91 Cr as on March 31, 2021. KSFC's funding profile is supported by the State Government's moral obligation to provide on-going support for growth and development of the state and also in times of distress.

Acuité believes, support from GoK is critical to the rating and thus, the credit profile of Karnataka state is a key rating sensitivity.

Comfortable Capitalisation levels; improving Profitability

KSFC has received continuous support from Government of Karnataka, as seen through equity infusion in FY 2020 (Rs.100 Cr), FY 2021 (Rs.100 Cr.) and another Rs. 54.60 Cr in 2022. The corporation's capitalization levels remained comfortable at 49.58 percent as on September 30, 2022 as compared to 42.53 percent in FY2022 and 38.30 percent in FY2021. The corporation's funding mix comprises of equity contribution from its shareholders primarily GoK, Bonds and bank borrowings. Of the overall outstanding borrowings, Bonds comprise of ~Rs 625 Cr and bank borrowings comprise of ~Rs 306.31 Cr as on December 31, 2022. All of the above borrowings (except for a term loan facility) are guaranteed by GoK. The ownership by the GoK enables KSFC to borrow at fine pricing from various banks and institutions. KSFC has been able to maintain gearing at lower levels at 1.02 times in FY2022 as against 1.43 times in FY2021. Overall Profitability of the company was improved in FY2022, where PAT stood at Rs. 66.61 Cr as compared to Rs. 42.90 crore in FY2021. Further the PAT improved to Rs 81.45 Cr during 9MFY23. This also led to improvement in ROAA which stood at 2.78 percent in FY22 against 1.75 percent in FY21. Annualized ROAA for 9MFY23 stood at 4.56 percent.

Acuité believes that the corporation will continue to benefit from strong financial and managerial support from the State Government on an on-going basis over the medium term.

Weakness

Moderate Asset Quality

The corporation's GNPA deteriorated to 7.79 percent as on December 31, 2022 as compared to 6.49 percent as on March 31, 2022, the corresponding NNPA levels stood at 5.17 percent and 4.74 percent respectively. The provision coverage ratio of KSFC stood at 35.50 percent during 9MFY23. However, additional slippages were noticed in FY2022, where GNPA and NNPA stood at 6.49 percent and 4.74 percent. The outstanding loan of restructured accounts as of December 31, 2022 was Rs. 534.32 crores which constitutes 26.13 percent of the loan portfolio outstanding during the same period. As on December 31, 2022, the Top 20 NPA accounts constitute ~41 percent of the Gross NPA. KSFC's ability to avoid slippages remains a key monitorable.

Decline in AUM

KSFC's AUM declined due to lower disbursements during 9MFY23 and FY2022, the AUM stood at Rs. 2045.23 Cr and Rs. 2100.15 Cr respectively. The corporation lends majority of its loans to the MSME Sector and disbursements had decreased by ~11% to Rs. 386.46 Cr as on March 31, 2022 from Rs. 432.96 crore in FY2021. Further, the disbursement stood at Rs 300.20 Cr during 9MFY23.

Acuité believes that KSFC ability to grow a healthy loan portfolio while effectively containing asset quality stress will be a key rating sensitivity.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivity

- Credit profile, ownership & support of the Government of Karnataka
- Significant changes in asset quality
- Capitalisation and liquidity buffers
- Changes in Regulatory Environment

Material Covenants

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

Liquidity Position

Adequate

As per the ALM statement submitted by the corporation as on December 31, 2022, no negative cumulative mismatch noticed within near to medium term buckets. KSFC has Rs. 188.57 Cr as cash and bank balance as on December 31, 2022. Liquidity is also supported by continuous support from Government of Karnataka, as seen through equity infusion in FY 2020 (Rs.100 Cr), FY 2021 (Rs.100 Cr.) and another Rs. 50 Cr in 2022. The overall collection efficiency is moderate due to old dues, which stood at an average of ~42.52 percent for 6 Months ending February 2023 whereas collection efficiency for current month due stood at an average of 96.18 percent for 6 Months ending February 2023.

Outlook - Stable

Acuité believes that KSFC will maintain a 'Stable' outlook over the medium term mainly driven by the financial and managerial support from the GoK. The outlook may be revised to positive in case of a significant improvement in the asset quality. The outlook may be revised to negative in case of significant deterioration in asset quality and profitability metrics.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

	FY22	FY21
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Particulars	Unit	(Actual)	(Actual)
Total Assets	Rs. Cr.	2387.59	2411.26
Total Income*	Rs. Cr.	213.45	194.62
PAT	Rs. Cr.	66.61	42.90
Net Worth	Rs. Cr.	1023.46	886.93
Return on Average Assets (RoAA)	(%)	2.78	1.75
Return on Average Net Worth (RoNW)	(%)	7.23	5.49
Debt/Equity	Times	1.02	1.43
Gross NPA (Owned portfolio)	(%)	6.49	6.42
Net NPA (Owned portfolio)	(%)	4.74	5.02

*Total income equals to Net Interest Income plus other income.

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

None

Any other information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>
- Public Finance - State Government Ratings: <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to Acuite Ratings & Research Limited 4/6 the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Dec 2021	Term Loan	Long Term	33.99	ACUITE AA Stable (Reaffirmed)
	Term Loan	Long Term	142.34	ACUITE AA Stable (Reaffirmed)
	Term Loan	Long Term	187.26	ACUITE AA Stable (Reaffirmed)
	Term Loan	Long Term	31.87	ACUITE AA Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	304.54	ACUITE AA Stable (Reaffirmed)
	Term Loan	Long Term	50.00	ACUITE AA (CE) Stable (Assigned)
	Term Loan	Long Term	100.00	ACUITE AA (CE) Stable (Assigned)

30 Sep 2020	Term Loan	Long Term	250.00	ACUITE AA (CE) Stable (Assigned)
	Proposed Bank Facility	Long Term	150.00	ACUITE AA (CE) Stable (Assigned)
	Term Loan	Long Term	150.00	ACUITE AA (CE) Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	90.54	ACUITE AA Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	304.54	ACUITE AA Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	29 Jun 2019	7.20	30 Jun 2026	Simple	18.00	ACUITE AA Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	23 Mar 2021	7.20	30 Jun 2028	Simple	33.99	ACUITE AA Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	23 Mar 2021	7.20	30 Jun 2028	Simple	54.54	ACUITE AA Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	30 Apr 2022	Not available	30 Apr 2027	Simple	85.00	ACUITE AA Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	24 Mar 2020	7.20	31 Mar 2027	Simple	113.03	ACUITE AA Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	16 Dec 2019	7.40	27 Dec 2026	Simple	0.36	ACUITE AA Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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