



Press Release
KARNATAKA STATE FINANCIAL CORPORATION
March 25, 2025
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	300.00	ACUITE AA Stable Assigned	-
Bank Loan Ratings	700.00	ACUITE AA Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	1000.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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 Financial Corporation. The outlook is ‘**Stable**’.

Acuite has assigned a long-term rating of ‘**ACUITE AA**’ (read as **ACUITE double A**) on the Rs. 300.00 crore bank facilities of Karnataka State Financial Corporation. The outlook is ‘**Stable**’.

Rationale for Rating

The rating continues to derive strength from strong parentage of Government of Karnataka (GoK) holding 96.14 percent stake as on December 31, 2024 and the continued capital support extended to KSFC at regular intervals. During FY24, the state of Karnataka infused capital of Rs. 54.60 Cr. into the company resulting into comfortable capitalization levels of 60.15 percent as on March 31, 2024. As a result of regular capital infusion, KSFC has comfortable capital structure. However, during 9MFY2025, there has been no equity infusion by Government of Karnataka (GoK). KSFC has still been able to maintain gearing at lower levels at 0.48 times as on December 31, 2024. The rating favourably factors adequate liquidity position of KSFC to meet its current obligations and moderate profitability. KSFC’s PAT marginally improved to Rs. 87.14 Cr in FY2024 as compared to Rs. 84.01 Cr. in FY2023; the PAT during 9MFY2025 stands at Rs. 66.85 Cr. KSFC’s loan portfolio stood at Rs. 2,128.44 Cr. as on December 31, 2024 as against Rs. 2062.53 Cr. as on March 31, 2024 and Rs. 2032.68 Cr. as on March 31, 2023.

These strengths are partially offset by modest asset quality parameters marked by GNPA and NNPA of 7.09 percent and 3.43 percent respectively and low momentum in AUM as a result of lower disbursements in FY24. 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 Financial 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 96.14 percent holding, 3.84 percent held by SIDBI and the balance is held by banks and other financial institutions. As on March 31, 2024, the corporation operates in 30 districts of Karnataka with a network of 32 branches. Dr. Reju M.T. IAS is the current Managing Director of KSFC.

Unsupported Rating

Analytical Approach

Acuite 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 96.14 percent shareholding is held by Government of Karnataka followed by 3.84 percent held by SIDBI and balance is held by banks and financial institutions, as on December 31, 2024. 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. 2,128.44 Cr. as on December 31, 2024 as against Rs. 2062.53 Cr. as on March 31, 2024 and Rs. 2032.68 Cr. as on March 31, 2023. 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 2024. However, during 9MFY2025, there has been no equity infusion by Government of Karnataka (GoK). KSFC has still been able to maintain gearing at lower levels at 0.48 times as on December 31, 2024. The corporation's capitalization levels remained comfortable at 60.15 percent as on March 31, 2024 as compared to 55.95 percent in FY2023 and 47.32 percent in FY2022. 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 250 Cr. and bank borrowings comprise of ~Rs 434.39 Cr. as on March 31, 2024. 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 0.50 times in FY2024 as against 0.63 times in FY2023. Overall Profitability of the company was marginally improved in FY2024, where PAT stood at Rs. 87.14 Cr as compared to Rs. 84.01 crore in FY2023; the PAT during 9MFY2025 stands at Rs. 66.85 Cr. This also led to improvement in ROAA which stood at 3.87 percent in FY24 against 3.62 percent in FY23.

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 7.09 percent as on March 31, 2024 as compared to 6.37 percent as on March 31, 2023, the corresponding NNPA levels stood at 3.43 percent and 3.51 percent respectively. The provision coverage ratio of KSFC stood at 54 percent during FY24. The outstanding loan of restructured accounts as of March 31, 2024 was Rs. 349.61 crore which constitutes ~16 percent of the loan portfolio outstanding during the same period. KSFC's ability to avoid slippages remains a key monitorable.

Stagnant movement in AUM

KSFC's AUM saw a low movement in AUM due to lower disbursements during FY24, the AUM stood at Rs. 2062.53 Cr. in FY24 and Rs. 2032.68 Cr. in FY23. KSFC's loan portfolio stood at Rs. 2,128.44 Cr. as on December 31, 2024. The corporation lends majority of its loans to the MSME Sector and disbursements had increased by ~37% to Rs. 613.04 Cr. as on March 31, 2024 from Rs. 445.81 crore in FY2023.

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

Assessment of Adequacy of Credit Enhancement under various scenarios including stress scenarios (applicable for ratings factoring specified support considerations with or without the "CE" suffix)

Acuité takes into consideration the benefit derived by KSFC from the 96.14% ownership of Government of Karnataka, directly.

Stress Case Scenario

While the rating has been derived on the standalone credit risk profile and cash flows of the company, Acuité believes given the 96.14% holding of Govt. of Karnataka ; in case of any stress case scenario, the required support would come from the state of Karnataka.

Rating Sensitivity

- Credit profile, ownership & support of the Government of Karnataka
- Significant changes in asset quality

- Capitalisation and liquidity buffers
- Changes in Regulatory Environment

Liquidity Position

Adequate

As per the ALM statement submitted by the corporation as on Sept 30, 2024, no negative cumulative mismatch noticed within near to medium term buckets. KSFC has Rs. 107 Cr. as cash and bank balance as on March 31, 2024. Liquidity is also supported by continuous support from Government of Karnataka, as seen through regular equity infusion.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	2250.50	2253.85
Total Income*	Rs. Cr.	239.82	220.69
PAT	Rs. Cr.	87.14	84.01
Net Worth	Rs. Cr.	1300.04	1184.92
Return on Average Assets (RoAA)	(%)	3.87	3.62
Return on Average Net Worth (RoNW)	(%)	7.20	7.85
Debt/Equity	Times	0.50	0.63
Gross NPA (Owned portfolio)	(%)	7.09	6.37
Net NPA (Owned portfolio)	(%)	3.43	3.51

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

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

Not applicable

Interaction with Audit Committee anytime in the last 12 months (applicable for rated-listed / proposed to be listed debt securities being reviewed by Acuite)

Not applicable

Any other information

None

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>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.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 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	
25 Jun 2024	Term Loan	Long Term	106.94	ACUITE AA	Stable (Reaffirmed)
	Term Loan	Long Term	75.00	ACUITE AA	Stable (Reaffirmed)
	Term Loan	Long Term	150.00	ACUITE AA	Stable (Reaffirmed)
	Term Loan	Long Term	16.78	ACUITE AA	Stable (Reaffirmed)
	Term Loan	Long Term	89.15	ACUITE AA	Stable (Reaffirmed)
	Term Loan	Long Term	84.85	ACUITE AA	Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	115.61	ACUITE AA	Stable (Reaffirmed)
	Term Loan	Long Term	61.67	ACUITE AA	Stable (Reaffirmed)
28 Mar 2023	Term Loan	Long Term	113.03	ACUITE AA	Stable (Reaffirmed)
	Term Loan	Long Term	0.36	ACUITE AA	Stable (Reaffirmed)
	Proposed Term Loan	Long Term	304.54	ACUITE AA	Stable (Reaffirmed)
	Term Loan	Long Term	18.00	ACUITE AA	Stable (Reaffirmed)
	Term Loan	Long Term	33.99	ACUITE AA	Stable (Reaffirmed)
	Term Loan	Long Term	54.54	ACUITE AA	Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	90.54	ACUITE AA	Stable (Reaffirmed)
	Term Loan	Long Term	85.00	ACUITE AA	Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	256.72	Simple	ACUITE AA Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	150.00	Simple	ACUITE AA Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	30 Apr 2022	Not avl. / Not appl.	30 Apr 2027	46.67	Simple	ACUITE AA Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	24 Mar 2020	Not avl. / Not appl.	31 Mar 2027	62.23	Simple	ACUITE AA Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	30 Dec 2023	Not avl. / Not appl.	30 Sep 2029	59.22	Simple	ACUITE AA Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	15 Mar 2024	Not avl. / Not appl.	31 Jul 2031	139.28	Simple	ACUITE AA Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	12 Jul 2023	Not avl. / Not appl.	30 Jun 2028	78.43	Simple	ACUITE AA Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	23 Mar 2021	Not avl. / Not appl.	30 Jun 2028	57.45	Simple	ACUITE AA Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	03 Sep 2024	Not avl. / Not appl.	30 Sep 2029	150.00	Simple	ACUITE AA Stable Assigned

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr No	Company Name
1	Government of Karnataka
2	Karnataka State Financial Corporation

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About Acuité Ratings & Research

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