

Press Release

KIFS Housing Finance Limited

February 01, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	292.50	ACUITE A- Stable Reaffirmed	-
Non Convertible Debentures (NCD)	37.50	ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	330.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 292.50 Cr. bank facilities of KIFS Housing Finance Limited (KHFL). The outlook is '**Stable**'.

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 37.50 Cr. Non-convertible Debenture issued by KIFS Housing Finance Limited (KHFL). The outlook is '**Stable**'.

Rationale for the rating

The rating takes into account healthy capital structure and support of resourceful promoters, which is well reflected through Capital Adequacy Ratio (CAR) of ~104.85 percent and leverage of 0.81 times as on September 30, 2022. The promoters have been supporting KHFL through regular equity infusions which has enabled the company to maintain the healthy capital structure while scaling up its operations. The rating also factors in the significant traction in disbursements and collections post Q1FY2022. KHFL's overall collection efficiency remained healthy at 91.87 percent for 6 months ended September 30, 2022. Disbursements in FY2022 moderated to Rs. 134.52 Cr as compared to Rs 212.08 Cr during FY2021. Further, the disbursements stood healthy at Rs 105.87 Cr as on September 30, 2022. The ratings further factor in comfortable financial performance and resources raising ability of the company at competitive rates.

The rating is, however, constrained due to limited track record & low portfolio seasoning, modest scale of operations, and marginal asset quality pressures. Although the asset quality remained healthy marked by on-time portfolio of 90.88 percent and GNPA of 1.97 percent as on December 31, 2022 however, delinquencies were observed in the softer buckets. Although the company is well positioned to benefit from continued government focus on affordable housing, Acuite believes that company's ability to profitably scale up business operations in highly competitive housing finance sector is a key monitorable.

About the company

Ahmedabad based KHFL, incorporated in November 2015, is a housing finance company

(HFC) registered with National Housing Bank (NHB). It primarily focuses on 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, Mr. Rajesh Khandwala, Mr. Vimal Khandwala and Mr. Jayesh Khandwala. KHFL operations are spread across 79 branches located in 11 states as on September 30, 2022. The geographies targeted are periphery of Tier 2 and Tier 3, towns. KHFL has majorly two products - home loans and loan against property (LAP). Currently, it has 7,224 borrowers and loan book of Rs. 547.31 Cr. as on September 30, 2022.

Analytical Approach

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

Key Rating Drivers

Strength

Experienced Management Team

KIFS Housing Finance Limited is governed by a professional board, headed by Mr. Rajesh P. Khandwala and Mr. Vimal P. Khandwala being its Promoter Directors. Other Directors to the KIFS Housing Finance Private Limited include Mr. Kartik Shailesh Mehta, Mr. Satish Mehta, Ms. Bhavna Govindbhai Desai and Mrs. Purvi Bhavsar. The top management is supported by Mr. Avinash Srivastava (Chief Operating Officer) and Mr. Vikki Soni (Chief Financial Officer) who run the day to day business of KHFL and have previously worked with large housing finance companies. The management has also implemented strong credit and risk management systems which will enable the company to improve upon their collections and maintain asset quality at moderate levels.

Acuité believes that KHFL's business profile will continue to benefit from the established presence in the housing segment backed by strong promoter support.

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 KIFS 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 support any future growth plans as and when required. The day to day operations are managed by promoter director Mr. Vimal Khandwala. The promoters have over 2 decades of experience in financial services industry and are well supported by seasonal management team. The company has also demonstrated its ability to raise debt from banks and financial institutions; it has raised debt of from various public and private banks and through refinancing schemes of National housing bank. KHFL's capital adequacy ratio stood at 104.85 percent as on September 30, 2022. KHFL's networth and gearing stood at Rs. 303.46 Cr. and 0.81 times as on September 30, 2022 as against Rs. 298.50 Cr. and 0.90 times as on March 31, 2022.

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

Government thrust towards Affordable housing segment

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 upto Rs. 50 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. Around 29 percent of the existing home loan customers of KHFL

have availed this subsidy.

KHFL has a prudent lending philosophy as seen in the granular nature of its portfolio, low Loan to value (LTV) ratio and focus on lending towards salaried class borrowers. The company currently has no real estate developer loans in its portfolio due to which the company has a relatively less risky asset portfolio. As on September 30, 2022 the company had a borrower base of 7,224 borrowers with an average ticket size of ~Rs.10 Lakhs. KHFL's portfolio comprises borrowers who are mainly from the salaried class 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.

Weakness

Limited seasoning of 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. 491.31 Cr. as on March 31, 2022 as against Rs. 451.22 Cr. as on March 31, 2021. Further, the loan book stood at Rs. 547.31 Cr as on September 30, 2022. The borrower base comprises mainly of salaried customers and balance comprises of self-employed customers. The performance of the portfolio will be demonstrated only over a period of time. Acuité observes that the company has seen a decline in the collection efficiency at ~93 percent for the month ended September 2022. 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. KHFL's asset quality remained moderate marked by on-time portfolio of 90.88 percent and GNPA of 1.97 percent as on December 31, 2022 however, delinquencies were observed in the softer buckets. KHFL's asset quality marginally deteriorated with the NNPA at 1.60 percent during 9MFY23.

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

Moderate financial risk profile

KHFL's operating income (net of interest expenses) stood at Rs. 46.08 Cr. for FY2022 from Rs. 44.61 Cr. in FY2021 improving significantly from Rs. 20.49 Cr. for FY2019. Profitability metrics have moderated marked by Return on Average Assets (RoAA) at 2.11 percent as on March 31, 2022 (P.Y: 3.54 percent) & Net Interest Margin (NIM) at 7.24 percent as on March 31, 2022 (P.Y: 8.27 percent). The company reported a decline in PAT levels to Rs. 12.83 Cr in FY2022 as compared to Rs. 17.68 Cr in FY2021. The PAT stood at Rs. 4.97 Cr as on September 30, 2022. KHFL's Operating Expenses to Earning Assets (Opex) increased to 6.64 percent (annualised) as on September 30, 2022 vis-à-vis 4.10 percent as on March 31, 2022.

Acuité believes, going forward, KHFL's ability to deploy the funds profitably while maintaining its asset quality will be key rating monitorable.

ESG Factors Relevant for Rating

KIFS Housing Finance Limited (KHFL) belongs to the housing finance sector which complements banks' efforts in improving mortgage penetration in India. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contribution to financial inclusion and community development, responsible financing including funding of environmentally friendly housing projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. KHFL

maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding related party transactions, vigil mechanism, insider trading and whistle blower policy. It also adheres to Reserve Bank of India's Fair Practices Code and has the necessary interest rate and grievance redressal policies. The board of directors of the company comprises two independent directors and two female directors out of a total of six directors. The company works on several community development initiatives through its CSR projects.

Rating Sensitivity

- Scale up in business operations
- Movement in profitability & asset quality metrics
- Changes in regulatory environment

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, the company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.

Liquidity Position

Adequate

The company has adequately matched asset liability profile as on December 31, 2021 with majority of the portfolio currently funded with equity. The company had liquidity of ~Rs. 68.52 Cr. as on September 30, 2021 in liquid investments and unencumbered cash and bank balances.

Outlook - Stable

Acuité believes that KHFL will benefit from its strong capitalisation levels and expected continuous support from its promoters. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalization indicators. Conversely, the outlook will be revised to 'Negative' in case of any deterioration asset quality or profitability metrics.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	614.19	603.38
Total Income (Net of Interest Expense)	Rs. Cr.	46.08	44.61
PAT	Rs. Cr.	12.83	17.68
Networth	Rs. Cr.	298.50	285.44
Return on Average Assets (RoAA)	(%)	2.11	3.54
Return on Net Worth (RoNW)	(%)	4.39	6.37
Total Debt/Net Worth (Gearing)	Times	0.90	1.04
Gross NPA's	(%)	1.08	0.81
Net NPA's	(%)	0.62	0.46

* Total income equals to Net interest income plus other income

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

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None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
04 Feb 2022	Term Loan	Long Term	2.50	ACUITE A- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	25.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	88.87	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	35.22	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	3.52	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	50.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	48.78	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	4.67	ACUITE A- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	12.50	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	1.66	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	10.78	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	8.24	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	10.26	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	2.67	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	3.75	ACUITE A- Stable (Reaffirmed)

04 Feb 2021	Term Loan	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	9.58	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	3.41	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Term Loan	Long Term	13.42	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Term Loan	Long Term	3.10	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Term Loan	Long Term	4.71	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Term Loan	Long Term	39.32	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Term Loan	Long Term	100.00	ACUITE A- Stable (Assigned)
	Non Convertible Debentures	Long Term	12.50	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Term Loan	Long Term	2.62	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
		Long		ACUITE A- Stable (Upgraded from
28 Jul 2020	Term Loan	Term	10.00	ACUITE BBB+ Positive)
	Term Loan	Long Term	40.08	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Term Loan	Long Term	14.10	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Proposed Bank Facility	Long Term	48.54	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Term Loan	Long Term	3.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Term Loan	Long Term	6.67	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Term Loan	Long Term	3.53	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Non Convertible Debentures	Long Term	25.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Positive)
	Term Loan	Long Term	45.00	ACUITE BBB+ Positive (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	25.00	ACUITE BBB+ Positive (Assigned)
	Term Loan	Long Term	5.00	ACUITE BBB+ Positive (Reaffirmed)
28 Jul 2020	Proposed Non Convertible Debentures	Long Term	12.50	ACUITE BBB+ Positive (Assigned)
	Term Loan	Long Term	4.75	ACUITE BBB+ Positive (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB+ Positive (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB+ Positive (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB+ Positive (Assigned)
	Term Loan	Long Term	3.10	ACUITE BBB+ Positive (Assigned)
	Term Loan	Long Term	5.00	ACUITE BBB+ Positive (Reaffirmed)

Term Loan	Long Term	15.00	ACUITE BBB+ Positive (Reaffirmed)
Term Loan	Long Term	50.00	ACUITE BBB+ Positive (Reaffirmed)
Proposed Bank Facility	Long Term	29.65	ACUITE BBB+ Positive (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	INE0CP107021	Non-Convertible Debentures (NCD)	31 Aug 2020	9.81	31 Aug 2023	Simple / Complex	25.00	ACUITE A- Stable Reaffirmed
Canara Bank	INE0CP107013	Non-Convertible Debentures (NCD)	29 Jul 2020	10.10	30 Jul 2023	Simple / Complex	12.50	ACUITE A- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	48.78	ACUITE A- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	34.35	ACUITE A- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE A- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	29 Sep 2021	8.30	30 Sep 2026	Simple	8.31	ACUITE A- Stable Reaffirmed
IDBI Bank Ltd.	Not Applicable	Term Loan	04 Oct 2021	8.50	30 Nov 2026	Simple	8.62	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	45.00	ACUITE A- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	29 Sep 2018	8.80	29 Sep 2023	Simple	0.95	ACUITE A- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	11 Mar 2019	9.25	23 Jan 2024	Simple	1.65	ACUITE A- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	27 Sep 2019	9.10	30 Jul 2024	Simple	2.55	ACUITE A- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	27 Sep 2019	9.00	29 Dec 2024	Simple	2.07	ACUITE A- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	21 Dec 2020	9.10	31 Oct 2025	Simple	6.83	ACUITE A- Stable Reaffirmed
A U Small Finance Bank	Not Applicable	Term Loan	13 May 2019	8.55	03 Apr 2024	Simple	3.17	ACUITE A- Stable Reaffirmed
South Indian Bank	Not Applicable	Term Loan	17 Dec 2018	8.75	29 Dec 2023	Simple	1.25	ACUITE A- Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Term Loan	18 Sep 2019	9.45	28 Feb 2025	Simple	8.29	ACUITE A- Stable Reaffirmed

National Housing Bank	Not Applicable	Term Loan	02 Aug 2019	6.20	01 Jan 2030	Simple	30.39	ACUITE A- Stable Reaffirmed
National Housing Bank	Not Applicable	Term Loan	05 Mar 2020	6.50	01 Apr 2025	Simple	7.89	ACUITE A- Stable Reaffirmed
National Housing Bank	Not Applicable	Term Loan	07 Sep 2020	6.10	01 Jan 2028	Simple	72.40	ACUITE A- 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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