



### Press Release

SK Finance Limited (Erstwhile Ess Kay Fincorp Limited)

December 28, 2023

### Rating Reaffirmed and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	28.29	ACUITE AA-   Reaffirmed & Withdrawn	-
Bank Loan Ratings	1971.71	Not Applicable   Withdrawn	-
Non Convertible Debentures (NCD)	175.00	PP-MLD   ACUITE AA-   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	175.00	-	-
Total Withdrawn Quantum (Rs. Cr)	2000.00	-	-

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITÉ PP-MLD AA-**' (read as **Principal Protected Market Linked Debentures ACUITÉ double A minus**) on the Rs. 175.00 Cr Principal Protected Market Linked Debentures of SK Finance Limited (SKFL) (Erstwhile ESS KAY Fincorp Limited). The outlook remains '**Stable**'.

Acuite has withdrawn the rating on the Rs. 1971.71 Cr proposed Bank Facilities of SK Finance Limited (SKFL) (Erstwhile ESS KAY Fincorp Limited). The rating is withdrawn on account of the request received from the company. The withdrawal is as per Acuite's policy on withdrawal of ratings.

Acuite has reaffirmed and withdrawn the rating of **Acuite AA-** (read as **ACUITÉ double A minus**) on the Rs. 28.29 Cr Bank Facilities of SK Finance Limited (SKFL) (Erstwhile ESS KAY Fincorp Limited). The withdrawal is on account of request received from client, NOC received from lender and in accordance with Acuite's policy on withdrawal of ratings.

### Rating Rationale

The rating derives strength from SKFL's operating track record in vehicle financing, well entrenched franchise in Rajasthan, demonstrated ability to raise capital as well as its experienced management team. Since FY18, SKFL has raised Rs. 1,685.82 Cr from marquee private equity players and its promoter, Mr. Rajendra Kumar Setia. Given the regular capital infusions, the company has a comfortable capital structure; CRAR and gearing stood at 32.37 percent and 2.86 times respectively as on Sept 30, 2023. The rating further takes into account a gradual improvement in profitability led by steady growth in disbursements in the current fiscal year. SKFL also benefits from a diversified resource profile and strong liquidity buffers with a policy of keeping liquidity equivalent to debt obligations for the next three months. The rating, is however constrained by its geographical concentration in the state of Rajasthan (~53 percent of AUM as on Sept 30, 2023) but Acuite does recognise the company's efforts to reduce its geographical concentration. The rating is also constrained by its exposure to relatively weak customer segment. Nevertheless, Acuite takes cognizance of the company's ability to curtail slippages and build comfortable provision buffers. While the on time portfolio stood at 85.62 percent as on Sept 30, 2023, company's Gross Stage 3 stood at 2.88 percent as on Sept 30, 2023 vis-à-vis 3.06 percent as on Sept 30, 2022. Going forward, the company's

ability to profitably scale up its operations while maintaining its asset quality shall be the key monitorable.

## About the company

Incorporated in 1994, SK Finance Limited (Formerly known as Ess Kay Fincorp Limited) is a Jaipur (Rajasthan) headquartered non-banking finance company (NBFC) registered with the Reserve Bank of India (RBI). SK Finance Limited has a wide network of more than 400+ branches across 10 states i.e., Gujarat, Rajasthan, Punjab, Haryana, Maharashtra, Chhattisgarh, Madhya Pradesh, Himachal Pradesh, Delhi NCR and Uttarakhand. The company has a track record of 29 years into financing a wide range of tractors and vehicles, which includes used and new, 2wheelers, car loan as well as extending loans to MSMEs i.e., Micro, Small and Medium Enterprises

## Unsupported Rating

Not Applicable

## Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SKFL to arrive at this rating

## Key Rating Drivers

### Strength

#### Adequate track record of operations

SKFL has track record of more than 29 years in vehicle financing segment with significant presence in the state of Rajasthan (~53 percent of the portfolio as on Sept 30, 2023). The company has established network of 491 branches across 12 states with loan portfolio outstanding at Rs. 8680.70 Cr as on Sept 30, 2023. The Company is promoted by Mr. Rajendra Setia who holds 38.18 % and is backed by private equity players like Norwest Venture Partners X-Mauritius, Baring Private Equity, Evolve, TPG Capital, IIFL and Massachusetts Institute of Technology these players together hold 60.32 percent of equity shareholding as on March 31, 2023. Mr. Rajendra Kumar Setia has vast experience of more than two decades in finance sector mainly vehicle financing. The board of the company comprises of two promoter directors, two independent directors and two investor nominee directors who have over a decade of experience in banking and advisory services. The company is supported by experienced senior management team heading different verticals with adequate and relevant experience in their respective fields. Acuité believes that SKFL will benefit from established presence and long track record in the area of operations as well as from the expertise and experience of the board and key management personnel.

#### Comfortable capitalization levels supported by regular capital infusion by its promoter and investors

The Company is promoted by Mr. Rajendra Setia who holds 38.18 % and is backed by private equity players like Norwest Venture Partners X-Mauritius, Baring Private Equity, Evolve, TPG Capital, IIFL and Massachusetts Institute of Technology these players together hold 60.32 percent of equity shareholding as on March 31, 2023. SKFL has been able to raise Rs. 1685.82 Cr since FY2018 till YTD. Out of which, Rs. 663.62 Cr was raised in Q2FY24 by existing and new investors and promoter. The company's capital structure consists of Networth of Rs. 2,651.25 Cr (FY2022: Rs. 1596.44 Cr, FY2021:- Rs. 971.48 Cr), Debt of Rs. 7577.64 Cr (FY2022: Rs.4498.25 Cr, FY2021:- 3256.10 Cr) and resultant gearing of 2.86 times (total debt includes lease liabilities) as on Sept 30, 2023 (FY2022: 2.82 times, FY2021:- 3.35 times). SKFL's gearing is moderate, and the company is well capitalized supported by the regular capital infusions. Capital Adequacy Ratio stood at 26.10 percent in FY2023 compared to 30.42 percent in FY2022 and 27.67 percent in FY2021. Regular support from investors through capital infusion has facilitated sufficient headroom for growth and ability to absorb losses.

Going forward, ACUITÉ believes, SKFL's capitalization levels will remain comfortable supported by its internal accruals and regular capital infusions from its investors.

## Prudent risk management policy

SKFL mainly focuses on used vehicles – S/LCV, MUV, Car, and Tractor – which are 3-10 years old. The total loan portfolio outstanding as on March 31, 2023 has increased by 56.50 percent to Rs. 7378.33 Cr as compared to 4,714.26 Cr in FY2022. The loan portfolio further grew to 8,680.70 in Sept 2023. Commercial Vehicle contributes ~45 percent to the total AUM followed by Car (~18.01%), Tractor (14.09%), MSME (19.03%) and 2wheeler (4.18%), of the own book portfolio. SKFL has managed to disburse around Rs. 5622.97 Cr. in FY2023 as against Rs. 3230.14 Cr during FY2022 (FY2021:- 1,630.87 Cr). The company made disbursements of Rs 3134 Cr in H1FY24. This is mainly because of the resource raising ability of the company along with prudent risk management practices and stringent credit assessment procedures adopted by the company. The underwriting procedure of SKFL is separate for both segments i.e. Vehicle and MSME. It has a write-off policy at 510+ DPD and it can vary from case to case basis. The company has also restructured account of Rs. 13.66 Cr (0.16% of AUM) of the outstanding loans as of Sept 30, 2023 and has 34.01 percent as provisioning on Stage III. ACUITÉ believes that SKFL's adequate underwriting procedures and risk management practices will help in keeping asset quality under control.

### **Improvement in profitability parameters**

Considering the segment of operations and customer profile, SKFL accrues higher lending yields. The lending yields has been in the range of ~20-23 percent over the past three years. Further, their cost of borrowing has also improved over the years to ~10 percent in FY2023, resulting in interest rate spread of ~10-12 percent. Hence, Net Interest Margin has remained healthy driven by improving cost of funds and higher yields. It improved to 11.06 percent in FY2023 from 9.51 percent in FY2022 and 10.25 percent in FY2021. The company's OPEX has remained at 5.12 percent in FY2023 as compared to 5.16 percent in FY2022 and 4.58 percent in FY2021 due to diversification into new geographies but the company has been able to improve the PAT to Rs.222.78 Cr. from Rs. 142.87 Cr in FY2022. The improvement in profitability in FY2023 is mainly led by higher disbursements of around Rs. 5622.97 Cr and improvement in asset quality. PAT stood at Rs. 222.78 Cr in FY2023 as compared to Rs. 142.87 Cr in the previous financial year. The company has been able to maintain ROAA of 2.93 percent in FY2023 as compared to 2.73 percent in FY2022 and 2.34 percent in FY2021 and 2.76 percent in FY2020. Going forward, SKFL's ability to be profitable while commanding higher yields and lower cost of funds will be a key monitorable.

### **Weakness**

#### **High Geographical concentration; albeit improving**

SKFL's scale of operations stood at Rs. 8,680.70 Cr as on Sep 30,2023 as compared to Rs. 4,714.26 Cr as on March 31, 2022 and Rs. 3,417.17 Cr in FY2021 and Rs. 2,986.47 Cr in FY2020. The AUM consisted of Rs. 7821.92 Cr. in own book (including PTC) and Rs. 858.55 Cr in off book portfolio. Geographically, Rajasthan accounts for ~53 percent of the portfolio while MP contributes 14 percent and Gujarat with 11 percent. However, the company has been diversifying in other states like Maharashtra, Haryana, Punjab and Chhattisgarh. Further, the Company has expanded in three more states viz: Uttarakhand, Himanchal & Delhi NCR and plans to venture in to Karnataka and UP. Going forward, the company's ability to profitably scale up its operations while reducing the geographical concentration will be a key rating segment.

#### **Weak Borrower profile and moderate seasoning**

As the company is majorly in to financing of used vehicles, the class of borrowers in the segment are susceptible to any negative impact on the economy. Also, the company has grown by 56.50 percent in FY2023 and 37.96 percent in FY2022. As majority of the portfolio growth was seen in the recent years, major portion of the current portfolio has moderate seasoning. Even though, Acuite takes cognizance of the company's ability to curtail slippages and build comfortable provision buffers, the portfolio still contains the risk of additional slippages.

### **ESG Factors Relevant for Rating**

SK Finance Limited (SKFL) (Formerly known as Ess Kay Fincorp Limited) is a non-banking finance company (NBFC) registered with the Reserve Bank of India (RBI). 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 contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. SKFL maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding its grievance redressal, related party transaction, fair practice code, whistle blower policy, Anti bribery policy and prevention of sexual harassment policy. The board of directors of the company comprise of two promoter directors out of which there's one female director; further, there are two independent directors and two investor nominee directors out of which there's one female nominee director. The entity has the necessary audit committee, nomination and remuneration committee and corporate social responsibility committee in place. The company is also governed by an information technology framework as recommended by RBI. SKFL provides financing to the priority sector including a wide range of both new and used tractors and vehicles, 2-wheelers, cars as well as MSMEs i.e., Micro, Small and Medium Enterprises.

SKFL aims to penetrate to the remotest areas lying at the bottom of the pyramid through various financial offerings and support financial inclusion efforts towards the underprivileged sections of the society. It has 97 percent of the clientele in rural or semi-urban areas. It continues to work on several community development initiatives through its corporate social responsibility projects in the sectors of education, healthcare, animal welfare and providing relief to poor. The company facilitates environmental initiatives by extending finance for the vehicles running on LPG/CNG; another initiative includes moving towards paperless transactions.

### **Rating Sensitivity**

- Scalability of operations and reduction in geographical concentration
- Movement in capitalisation levels
- Movement in asset quality and profitability
- Changes in regulatory environment

### **All Covenants**

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

### **Liquidity Position Adequate**

SKFL's liquidity profile remained adequate as on Sep 30, 2023, with no negative cumulative mismatches in any of the buckets as per the reported liquidity statement. The management maintains a policy of keeping surplus liquidity for meeting debt obligations for the next three months. The company has Rs. 1716.79 Cr of closing balance of liquidity (Cash and cash equivalents and investments in liquid assets) at the end of Sept, 2023. Liquidity is further supported by constant capital infusions done by its investors and promoter. Also, the company has diversified borrowing mix contributed by Term loans (68.45%), NCDs (28.63%), ECBs (2.75%) and CC (0.17%)

### **Outlook: Stable**

Acuité believes that SKFL will maintain a 'Stable' outlook over the medium term supported by its established presence in the vehicle financing segment along with demonstrated ability to raise capital. The outlook may be revised to 'Positive' in case of higher than expected growth in the loan portfolio while maintaining asset quality and capital structure. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality, thereby impacting profitability metrics.

### **Other Factors affecting Rating**

None

**Key Financials - Standalone / Originator**

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets**	Rs. Cr.	9029.26	6195.79
Total Income*	Rs. Cr.	766.76	473.87
PAT	Rs. Cr.	222.78	142.87
Networth	Rs. Cr.	1833.74	1596.44
Return on Average Assets (RoAA)	(%)	2.93	2.73
Return on Net Worth (RoNW)	(%)	12.99	11.13
Total Debt/Tangible Net Worth (Gearing)**	Times	3.88	2.85
Gross NPA***	(%)	1.94%	2.83%
Net NPA***	(%)	1.31%	2.02%

\*Total income equals to Net interest income plus other income

\*\*Total assets are net off deferred tax assets

\*\*\*Gross NPA and Net NPA are as per IND AS.

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

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>
- 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, 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](http://www.acuite.in).



## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 May 2023	Proposed Bank Facility	Long Term	1971.71	ACUITE AA-   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	175.00	ACUITE PP-MLD AA-   Stable (Reaffirmed)
	Proposed Commercial Paper Program	Short Term	50.00	(Withdrawn)
	Term Loan	Long Term	28.29	ACUITE AA-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	500.00	(Withdrawn)
23 May 2022	Proposed Bank Facility	Long Term	2460.00	ACUITE AA-   Stable (Reaffirmed)
	Proposed Commercial Paper Program	Short Term	50.00	ACUITE A1+ (Reaffirmed)
	Principal protected market linked debentures	Long Term	175.00	ACUITE PP-MLD AA-   Stable (Assigned)
	Term Loan	Long Term	40.00	ACUITE AA-   Stable (Reaffirmed)
10 Feb 2022	Proposed Bank Facility	Long Term	2500.00	ACUITE AA-   Stable (Assigned)
	Proposed Commercial Paper Program	Short Term	50.00	ACUITE A1+ (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	INE124N07598	Principal protected market linked debentures	26 May 2022	Not Applicable	26 May 2024	Complex	175.00	PP-MLD   ACUITE AA-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1971.71	Not Applicable   Withdrawn
Yes Bank Ltd	Not Applicable	Term Loan	17 Jan 2022	Not available	11 Aug 2025	Simple	28.29	ACUITE AA-   Reaffirmed & Withdrawn



## Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 <a href="mailto:mohit.jain@acuite.in">mohit.jain@acuite.in</a>  Akancha Singh Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:akancha.singh@acuite.in">akancha.singh@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### 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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