

KLM Axiva Finvest Limited

July 24, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Non-Convertible Debenture issue	125 (Rs. One Hundred and twenty five crore Only)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continues to be constrained by moderate scale of operations with regional concentration of the loan portfolio, evolving MIS systems and processes, concentrated funding profile, moderate asset quality, relatively higher exposure to riskier borrower segments and exposure to market risk of the gold jewellery kept as security.

The rating however favourably factors in the experience of the promoter and management team, good profitably despite high operational costs and adequate capitalisation levels. The rating takes the note of capital raise of Rs.14 crore during March 2019.

Going forward, the ability of the company to grow its portfolio while improving asset quality, improve profitability by the way of reducing its operating expenses while expanding geographically and improve MIS systems will be the key rating sensitivities. Any change in the regulatory environment is also a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Adequate Capitalisation Levels

During FY18, KLM had raised equity of Rs.3.81 crore from the existing shareholders through private placement. Tier 1 CAR as on March 31, 2018 stood at 23.04% as against 44.79% as on March 31, 2017. The decrease in CAR levels is mainly on account of portfolio growth of 113% from Rs.91 crore as on March 31, 2017 to Rs.194 crore as on March 31, 2018. The company also raised equity of Rs.14 crore during March 2019 through private placement where the majority portion was invested by the existing shareholders. This round of equity along with profits generated during FY19 is expected to be sufficient to fund the growth projected for FY20. Tier 1 CAR as on March 31, 2019 stood at 16.74%.

Healthy profitability profile however high operating costs

During FY18, KLM reported a NIM of 18.02%. Operating expenses to average total assets remained high at 13.14% in FY18 due to branch expansion, advertising expenses and daily collection mechanism at the customer premises in few of the products. However, ROTA improved from 2.84% during FY17 to 3.37% during FY18.

During FY19, the company reported a PAT of Rs.5.97 crore on a total income of Rs.68.36 crore

Liquidity Profile

Gold loans and microfinance loans have a tenor of less than 1 year and other loans have tenor of around 2 years. With the portfolio being funded majorly through longer tenure borrowings, the liquidity position is adequate. Cash & cash equivalent as on March 31, 2019 stood at Rs.20.8 crore. KLM also has unavailed lines of credit of Rs.5.50 crore as on June 30, 2019.

Key Rating Weaknesses

Evolving MIS systems and processes

KLM offers gold loans across all the branches whereas business loans and personal loans are offered only in Kerala. With respect to gold loans, the branch employees have been trained to appraise quality of the gold jewelry provided as security against loan. The branches are provided with secured vaults with dual control keys, CCTV cameras and insurance. The company has an internal audit team consisting of 25 members and the team is head by an experienced personnel. The internal audit is a concurrent activity and ensured that every branch is audited once in a month.

KLM is migrating to a new MIS system which is used by many NBFCs and the integration of the same is in process. The new MIS system will enable the company to track the portfolio on a real time basis.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.

Relatively higher exposure to riskier borrower segments and inherent risk associated with gold loans

KLM is primarily lending towards the business and personal finance needs of the relatively riskier asset class comprising of low income borrowers in the informal sector. Since this segment is highly susceptible to the impact of economic downturn, asset quality is a key monitorable. The management team's good knowledge on this target customer segment provides comfort.

Concentrated Funding Profile

The resource profile is concentrated towards retails debentures which constitutes around 96% of the total outstanding borrowing as on March 31, 2018 and rest is towards bank borrowings. During November 2018, the company has raised its first public issue of NCDs for Rs.100 crore. The borrowings are expected to remain concentrated towards debentures in the medium term.

Improvement in scale of operations; however portfolio size remained moderate and geographically concentrated

KLM portfolio remained moderate with presence in 3 states and 110 branches of which majority of the branches are in Kerala. Though Gold loan is offered in all the branches, other loan products such as business loans, personal loans and microfinance loans are offered majorly only in Kerala. So portfolio remains concentrated towards Kerala. During FY18, portfolio grew by 112% from Rs.91 crore as on March 31, 2017 to Rs.192 crore as on March 31, 2018 and to Rs.247 crore as on November 30, 2018. As on March 31, 2019, the portfolio stood at Rs.374 crore.

Moderate asset quality

Asset quality continues to be moderate with the company reporting GNPA of 4.40% as on March 31, 2018 as against 4.23% as on March 31 2017 respectively. With the company planning to expand its loan portfolio with new branches & new regions, the ability to manage its asset quality remains critical. GNPA stood at 4.98% as on March 31, 2019.

Analytical approach:

Standalone.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios-Financial Sector](#)

[Rating Methodology for Non-Banking Financial Companies](#)

About the Company

KLM Axiva Invest Limited (KLM) was incorporated on April 28, 1997 and became a NBFC in the same year by registering with the Reserve Bank of India. The Company was initially operated as Needs Finvest Limited. Later the current management took over the company in 2014 and changed the name to KLM Axiva Finvest India Limited. KLM Axiva Finvest is promoted and led by Mr. Shibu Theckumpuram and Mr. Jose Kutty Xavier who have 30 years of experience in lending business.

The company offers products such as gold loans, business loans, personal loans, vehicle loans and Micro Finance loans. Apart from lending, the company also offers foreign exchange services and insurance brokerage services.

The company currently has 110 branches across various districts in Kerala, Tamil Nadu and Karnataka. As on November 30, 2018 the total outstanding portfolio stood at Rs.248 crore of which business loans accounted for 33% of loan portfolio outstanding followed by gold loans (30%), personal loans (28%) and Microfinance loans (9%).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	23.94	42.73
PAT	2.14	5.67
Interest coverage (times)	1.84	1.69
Total Assets	108.47	228.49
Gross NPA (%)	4.40	4.98
ROTA (%)	2.84	3.37

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures(Proposed)	-	-	-	125.00	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BB+; Stable	1)CARE BB+; Stable (04-Apr-19)	-	1)CARE BB; Stable (13-Feb-18)	-
2.	Debentures-Non Convertible Debentures	LT	100.00	CARE BB+; Stable	1)CARE BB+; Stable (04-Apr-19)	-	1)CARE BB; Stable (13-Mar-18)	-

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra
 Contact no. – +91-22-6837 4424
 Email ID – mradul.mishra@careratings.com

Analyst Contact

Name – Mr P Sudhakar
 Contact no.- 044-2850 1000
 Email ID- p.sudhakar@careratings.com

Business Development Contact

Name: Mr Pradeep Kumar
 Contact no. :044-2849 7812/0811
 Email ID : pradeep.kumar@careratings.com

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