

Press Release

KIFS Housing Finance Limited

February 04, 2021



Rating Upgraded and Assigned; Outlook Revised

Total Bank Facilities Rated*	Rs. 292.50 Cr. (Enhanced from Rs. 192.50 Cr.)
Long Term Rating	ACUITE A-/ Outlook: Stable (Upgraded and Assigned; Outlook Revised)
Total Non-Convertible Debentures Rated*	Rs. 37.50 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable (Upgraded; Outlook Revised)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded and assigned the long-term rating from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) to '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 292.50 Cr. bank facilities of KIFS Housing Finance Limited (KHFL). The outlook is revised from '**Positive**' to '**Stable**'.

Acuité has also upgraded the long-term rating from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) to '**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 revised from '**Positive**' to '**Stable**'.

Reason for upgrade and revision in Outlook

The rating takes into account healthy capitalisation and support of resourceful promoters, which is well reflected through Capital Adequacy Ratio (CAR) of ~109.98 percent and leverage of 0.68 times as on December 31, 2020. The promoters have been continuously supporting, through significant equity infusion (~Rs. 250 Cr.) over the past 2 years, this has enabled the company, to maintain the healthy capital structure while ramping up its scale of operations. The rating also factors in the significant traction shown in disbursements and collections, which were subdued in Q1 of FY21 as a result of outbreak of pandemic. The company's loan portfolio increased to Rs. 441.71 Cr. as on December 31, 2020 from Rs. 338.19 Cr. as on March 31, 2020. Over the past year, the company has also demonstrated its ability to raise debt from various public and private banks and from national Housing Bank through refinancing scheme. Acuite believes that the company will benefit from the expected buoyancy in demand for affordable housing segment once the economic climate in the country stabilises and KHFL's ability to benefit from the growth in demand for affordable housing.

The rating is, however, constrained due to limited track record, modest scale of operations, low seasoned portfolio and marginal asset quality pressures. Proforma GNPA(Gross Non-Performing Assets) has increased to 0.73% as on December 31, 2020 as compared to 0.47% as on March 31, 2020.

Acuité believes that the company is well positioned to leverage its capital structure and benefit from the demand for affordable housing once economic revival in the country commences.

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, Rajesh Khandwala, Vimal Khandwala and Kinnary Khandwala. KHFL operations are spread across 40 branches located in 6 states as on December 31, 2020. 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 5087 borrowers and loan book of Rs. 441.71 Cr. as on December 31, 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

- **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 KFIS 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 infuse additional capital of Rs. 100 Cr. in next 2 years in phased manner to support the growth plans as and when required. After the exit of KHFL's CEO in Q4FY2020 the day to day operations are managed by promoter director Mr. Vimal Khandwala. The company has also demonstrated its ability to raise debt from banks and financial institutions; it has raised debt of ~Rs. 160.10 Cr. from various public and private banks and through refinancing schemes of National housing bank. KHFL's capital adequacy ratio stood at 109.98 percent as on December 31, 2020 as against 123.75 percent as on March 31, 2020. Its net worth and gearing stood at Rs. 282.78 Cr. and 0.68 times as on December 31, 2020 as against Rs. 269.94 Cr. and 0.42 times as on March 31, 2020. The company's loan portfolio stood at Rs. 441.71 Cr. as on December 31, 2020 as against Rs. 338.19 Cr. as on March 31, 2020. Disbursement has slowed down in the first quarter FY21 due to the pandemic situation, however the disbursements have picked up in the second half of FY21, KHFL has disbursed ~Rs. 136 Cr. till December,2020. The company's gearing is expected to be below ~ 3 times over the near to medium term.

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

- **Medium to long term prospects intact; short term headwinds may impact: 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. 35 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.

The pandemic situation in the country has impacted the cashflows of many borrowers because of job cut/losses, this has affected the cashflows of the salaried segment. Besides the impact on reasonably steady salaried segment the cashflows of self-employed segment has also been impacted. This is likely to cause certain disruptions in the near term in terms of collection efficiency and possible asset quality pressures. However, once the economic revival commences the demand for housing, especially in the affordable housing, is expected to improve.

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. This helps the company have a relatively less risky asset portfolio. As on March December 31, 2020 the company had a borrower base of 5087 (4258 as on March 31, 2020) borrowers with an average ticket size of ~Rs.10 Lakhs. KHFL's portfolio comprises borrowers who are mainly from the salaried class (~82% of portfolio as on December 31, 2020) with comfortable Fixed obligation to income ratio (FOIR) (average less than 50%) and Loan to value (LTV) ratio (average ~55%).

Acuite 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.

Weaknesses

- **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. 441.71 Cr. as on December 31, 2020 as against Rs. 338.19 Cr. as on March 31, 2020. The

borrower base comprises mainly of salaried customers (82%) and balance comprises of self-employed customers. The performance of the portfolio will be demonstrated only over a period of time. With the outbreak of COVID-19 and the subsequent lockdowns in the country, there have been severe disruptions in the economic activities across the country. Acuite observes that the company has been able to improve its actual collection to scheduled collection percentage from ~68% in April, 2020 to ~97% in December 2020. 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.

Acuite 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.

Liquidity Position: Adequate

The company has adequately matched asset liability profile as on December 31, 2020 with majority of the portfolio currently funded with equity. The company had liquidity of ~Rs. 17.05 Cr. as on December 31, 2020 in liquid investments and unencumbered cash and bank balances and unutilised bank lines of Rs.130 Cr. The company had not availed moratorium from any of its lenders through the special dispensation scheme and has met all its obligations. Further, the liquidity profile is supported by fresh sanctions received till December 31, 2020 of ~Rs. 113.10 Cr. in the form of Term Loans and Rs. 47.50 Cr. through the TLTRO schemes.

Rating Sensitivities

- Growth in Loan portfolio
- Maintaining healthy Asset quality
- Gearing to remain below 3x

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 via mail dated February 01, 2021, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors'.

Outlook: Stable

Acuite believes that KHFL will benefit from its strong capitalisation levels and expected continuous support from its promoters. The outlook may be revised to 'Positive' if the company is able to contain its asset quality pressures within reasonable levels and maintain its profitability parameters while scaling up its operations. Conversely, the outlook will be revised to negative incase, the company faces headwinds in containing its asset quality pressures and maintaining its profitability parameters due to high credit costs while significantly scaling up its operations.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	394.62	227.91
Total Income (Net of Interest Expense)	Rs. Cr.	42.15	20.49
PAT	Rs. Cr.	15.33	4.10
Networth	Rs. Cr.	269.94	174.65
Return on Average Assets (RoAA)	(%)	4.92	2.28
Return on Net Worth (RoNW)	(%)	6.90	2.98
Total Debt/Net Worth (Gearing)	Times	0.42	0.28
Gross NPA's	(%)	0.47	0.11
Net NPA's	(%)	0.38	-

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
28 th July, 2020	Term Loan	Long Term	4.75	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
	Term Loan	Long Term	5.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
	Term Loan	Long Term	10.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
	Term Loan	Long Term	50.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
	Term Loan	Long Term	10.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
	Term Loan	Long Term	5.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
	Term Loan	Long Term	15.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
	Term Loan	Long Term	45.00	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
	Term Loan	Long Term	15.00	ACUITE BBB+/Positive (Assigned)
	Term Loan	Long Term	3.10	ACUITE BBB+/Positive (Assigned)
	Proposed Bank Facility	Long Term	29.65	ACUITE BBB+/Positive (Reaffirmed; Outlook Revised)
	Proposed Non-Convertible Debentures	Long Term	25.00	ACUITE BBB+/Positive (Assigned)
	Proposed Non-Convertible Debentures	Long Term	12.50	ACUITE BBB+/Positive (Assigned)
05 th December, 2019	Term loan	Long Term	4.75	ACUITE BBB+/Stable (Reaffirmed)

	Term loan	Long Term	5.00	ACUITE BBB+/Stable (Reaffirmed)
	Term loan	Long Term	50.00	ACUITE BBB+/Stable (Reaffirmed)
	Term loan	Long Term	10.00	ACUITE BBB+/Stable (Reaffirmed)
	Term loan	Long Term	5.00	ACUITE BBB+/Stable (Reaffirmed)
	Term loan	Long Term	10.00	ACUITE BBB+/Stable (Assigned)
	Term loan	Long Term	15.00	ACUITE BBB+/Stable (Assigned)
	Term loan	Long Term	45.00	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	15.25	ACUITE BBB+/Stable (Assigned)
27 th August 2019	Term loan	Long Term	4.75	ACUITE BBB+/Stable (Reaffirmed)
	Term loan	Long Term	5.00	ACUITE BBB+/Stable (Reaffirmed)
	Term loan	Long Term	50.00	ACUITE BBB+/Stable (Assigned)
	Term loan	Long Term	10.00	ACUITE BBB+/Stable (Assigned)
	Term loan	Long Term	5.00	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	5.25	ACUITE BBB+/Stable (Reaffirmed)
29 th Nov, 2018	Term Loan	Long Term	4.75	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	20.25	ACUITE BBB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	29.09.2018	8.80%	29.09.2023	2.62	ACUITE A-/Stable (Upgraded; Outlook Revised)
Term Loan	11.03.2019	9.95%	23.02.2024	3.53	ACUITE A-/Stable (Upgraded; Outlook Revised)
Term Loan	27.09.2019	9.10%	30.07.2024	4.71	ACUITE A-/Stable (Upgraded; Outlook Revised)
Term Loan	27.09.2019	10.00%	29.01.2025	3.41	ACUITE A-/Stable (Upgraded; Outlook Revised)

Term Loan	21.12.2020	8.90%	31.10.2025	10.00	ACUITE A-/Stable (Upgraded; Outlook Revised)
Term Loan	23.05.2019	8.45%	30.04.2022	39.32	ACUITE A-/Stable (Upgraded; Outlook Revised)
Term Loan	13.03.2019	8.95%	03.04.2024	6.67	ACUITE A-/Stable (Upgraded; Outlook Revised)
Term Loan	17.12.2018	8.75%	29.12.2023	3.00	ACUITE A-/Stable (Upgraded; Outlook Revised)
Term Loan	18.09.2019	9.45%	28.02.2025	14.10	ACUITE A-/Stable (Upgraded; Outlook Revised)
Term Loan	02.08.2019	5.65% to 7.75%	01.01.2030	40.08	ACUITE A-/Stable (Upgraded; Outlook Revised)
Term Loan	05.03.2020	7.05%	01.04.2025	13.42	ACUITE A-/Stable (Upgraded; Outlook Revised)
Term Loan	12.05.2020	5.40%	20.05.2021	3.10	ACUITE A-/Stable (Upgraded; Outlook Revised)
Term Loan	07.09.2020	6.10%	Not Applicable	100.00	ACUITE A-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	48.54	ACUITE A-/Stable (Upgraded; Outlook Revised)

Non-Convertible Debentures

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
INE0CP107021	Non-Convertible Debentures	31.08.2020	9.81%	31.08.2023	25.00	ACUITE A-/Stable (Upgraded; Outlook Revised)
INE0CP107013	Non-Convertible Debentures	29.07.2020	10.10%	28.07.2023	12.50	ACUITE A-/Stable (Upgraded; Outlook Revised)

Contacts

Analytical	Rating Desk
<p>Mohit Jain Senior Vice President Tel: 022- 4929 4071 mohit.jain@acuite.in</p> <p>Palak Shah Analyst - Rating Operations Tel: 022- 4929 4000 palak.shah@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-4929 4021 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: *An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.*