## Rating Rationale

**Ess Kay Fincorp Limited**

23 July 2019

Brickwork Ratings reaffirms the long rating of BWR A with change in outlook to Positive for the terms loans and secured NCDs aggregating to Rs 375 Crs of Ess Kay Fincorp Limited (“EKFL” or “the Company”).

### Particulars

<table>
<thead>
<tr>
<th>Facility/Instrument</th>
<th>Amount (Rs Crs)</th>
<th>Tenure</th>
<th>Previous Rating</th>
<th>Present Rating*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Previous</td>
<td>Present</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Term Loans</td>
<td>100.00</td>
<td>100.00*</td>
<td>Long Term</td>
<td>BWR A (Pronounced as BWR Single A) (Outlook: Stable)</td>
</tr>
<tr>
<td>NCDs (Existing)</td>
<td>275.00</td>
<td>275.00</td>
<td>Long Term</td>
<td>BWR A (Pronounced as BWR Single A) (Outlook: Stable)</td>
</tr>
<tr>
<td>NCDs (Proposed)</td>
<td>25.00</td>
<td>0.00</td>
<td>Long Term</td>
<td>BWR A (Pronounced as BWR Single A) (Outlook: Stable)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>400.00</strong></td>
<td><strong>375.00</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

**Includes proposed term loans of Rs 75.86 Crs.

Rating for Unutilised portion of Secured NCDs of Rs 25 Crs is withdrawn, at the request from the company

### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the company upto FY19, publicly available information and information/clarifications provided by the management.

The positive outlook takes into account improvement in the company’s operating and financial performance, equity infusion of Rs 300 Crs in FY19 and expectation of geographical diversification of portfolio while maintaining the asset quality, reduction in cost of borrowings and steady growth in loan portfolio.
The rating continues to factor the long track record of operations, experienced management, diversified resource profile and healthy capitalisation. EKFL has reported improvement in total operating income and net profit during FY19 driven by increase in portfolio. EKFL has raised equity of ~ Rs 300 Crs during FY19 which has reduced the gearing for the company.

The ratings are constrained by moderate scale of operations, high geographic concentration, moderate asset quality and weak external environment for NBFCs.

Description of Key Rating Drivers

Credit Strengths:

- **Long Track Record of Operations and Experienced management:** EKFL is one of the oldest NBFCs operating out of Rajasthan. The promoter of EKFL, Mr. Rajendra Kumar Setia has over 2 decades of experience in vehicle financing. He is currently the Managing Director of the company and is also the President of Rajasthan Finance Companies Association. The company has an experienced board comprising of 6 Directors including 2 Independent Directors and 2 Nominee Directors.

- **Improvement in Financial Performance:** The total portfolio of the company has increased from Rs 1282 Crs as on March 31, 2018 to Rs 2002 Crs as on March 31, 2019, an increase of ~56%. The increase in portfolio was led by increase in disbursements. The total income has increased from Rs 227.33 Crs in FY18 to Rs 364.93 Crs in FY19, an increase of ~60%. Net profit also increased significantly to Rs 52.23 Crs in FY19 (FY: Rs 21.95 Crs). Return on total assets has increased from 2.20% in FY18 to 3.25% in FY19.

- **Diversified Resource Profile:** Nearly 40% of the company’s total borrowings were in the form of term loans, 55% was in the form of NCDs and rest was in the form of cash credit facilities availed from banks. The company has availed term loans from ~ 19 banks and ~ 16 NBFCs and FIs. Despite the recent slowdown in the NBFC sector, EKFL has been able to borrow funds and disburse loans. However, the average cost of borrowing remains high at 11.21% during FY19 as compared to 11.1% during FY18.

- **Healthy Capitalisation:** The company has raised equity of ~Rs 100 Crs in FY18 and ~Rs 300 Crs in FY19, resulting in significant increase in tangible net worth to Rs 554.59 Crs as on March 31, 2019. Total Debt / TNW has reduced from 4.36 times as on March 31, 2018 to 2.34 times as on March 31, 2019. Target gearing of the company is around 5.00 times. CRAR stood at 33.02% as on March 31, 2019 (PY: 20.46%).

Credit Risks:

- **Geographic Concentration:** The company currently operates in 6 states viz. Rajasthan,
Gujarat, Madhya Pradesh, Maharashtra, Punjab and Haryana. However around 73% of the total portfolio is concentrated in Rajasthan as on March 31, 2019. This exposes EKFL to geographic concentration risk. However, the company is planning to reduce its concentration in Rajasthan by diversifying in other states and BWR expects EKFL to have a diversified geographic presence in medium term.

- **Moderate Asset Quality**: The company’s gross NPA has reduced from 3.29% as on March 31, 2018 to 3.08% as on March 31, 2019. The net NPA has reduced from 2.47% as on March 31, 2018 to 2.22% as on March 31, 2019. The asset quality is moderate given the inherent risks involved in used vehicle financing. Around 73% of total portfolio comprised of used vehicle financing as on March 31, 2019.

- **Weak External Environment for NBFCs**: The entire NBFC sector currently faces challenges in terms of raising funds. While the recent liquidity crisis revolving around the NBFC sector has not affected the company, however the ability of the company to raise liabilities with improvement in cost of borrowings continues to be a key monitorable. The automobile and automobile financing industry for new vehicles is witnessing a slowdown. However, EKFL mainly operates in used vehicle financing which has not been impacted as of now.

**Liquidity Position**
As per the ALM statement provided by the company, there are no cumulative negative mismatches. The company has repayments of ~ Rs 316 Crs between July to March against which it has total collections of ~ Rs 400 Crs during the same period. EKFL had cash and bank balance of Rs 129.68 Crs as on June 30, 2019. In addition, EKFL had undrawn credit limits (including unutilised cash credit limits) of Rs 295 Crs as on June 30, 2019. EKFL has nil commercial paper (CP) borrowings as on date.

**Rating Outlook: Positive**
The positive outlook reflects BWR’s expectations of geographical diversification of portfolio while maintaining asset quality, steady growth in loan portfolio and reduction in cost of borrowings. The rating may be upgraded if the company is able to geographically diversify its portfolio while maintaining its asset quality, reduce its cost of borrowings and steadily grow the loan portfolio. The rating outlook may be revised to ‘Stable’ if the company is unable to geographically diversify its portfolio or reduce cost of borrowings or if the asset quality weakens or capital structure deteriorates.

Going forward, the ability of the company to increase its total portfolio book and effectively maintain its NIMs and asset quality will remain key rating sensitivities.

**Analytical Approach**
For arriving at its ratings, BWR has evaluated the risk profile of EKFL on a Standalone basis and applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).
About the Company
Incorporated in 1994, Ess Kay Fincorp Limited (EKFL) is a systemically important non-deposit-taking non-banking finance company registered with the Reserve Bank of India. The company is engaged in providing loans for new and used vehicles and also provides loans to small and medium-sized enterprises. The company has its registered office in Udaipur, Rajasthan. The company operates in 6 states viz. Rajasthan, Gujarat, Madhya Pradesh, Maharashtra, Punjab and Haryana. The company has over 250 branches, employee strength of over 2800 employees and around 1.24 lakh customers. The portfolio comprises of commercial vehicle loans (54%), Agricultural Equipment loans (18%), car loans (14%), SME loans (10%) and Two-Wheeler loans (3%).

Company’s Financial Performance
The total portfolio stood at Rs 2002 Crs as on March 31, 2019 as against Rs 1282 Crs in previous year. The total income increased from Rs 227.33 Crs in FY18 to Rs 364.93 Crs in FY19. The company reported a net profit of Rs 52.23 Crs in FY19 as against Rs 21.95 Crs in the previous year. Tangible Net Worth increased from Rs 206.03 Crs as on March 31, 2018 to Rs 554.59 Crs as on March 31, 2019.

<table>
<thead>
<tr>
<th>Key Financial Indicators</th>
<th>Units</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Result Type</td>
<td></td>
<td>Audited</td>
<td>Audited</td>
</tr>
<tr>
<td>Total Income</td>
<td>Rs in Crs</td>
<td>227.33</td>
<td>364.93</td>
</tr>
<tr>
<td>PAT</td>
<td>Rs in Crs</td>
<td>21.95</td>
<td>52.23</td>
</tr>
<tr>
<td>Tangible Net Worth (TNW)</td>
<td>Rs in Crs</td>
<td>206.03</td>
<td>554.59</td>
</tr>
<tr>
<td>Total Debt / TNW</td>
<td>In times</td>
<td>4.36</td>
<td>2.34</td>
</tr>
<tr>
<td>Total portfolio</td>
<td>Rs in Crs</td>
<td>1282</td>
<td>2002</td>
</tr>
<tr>
<td>CRAR</td>
<td>%</td>
<td>20.46</td>
<td>33.0</td>
</tr>
<tr>
<td>GNPA</td>
<td>%</td>
<td>3.29</td>
<td>3.08</td>
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</table>
### Rating History for the last three years

<table>
<thead>
<tr>
<th>S.No</th>
<th>Facility</th>
<th>Type</th>
<th>Amount (Rs in Crs)</th>
<th>Current Rating (23 July 2019)</th>
<th>Rating History</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Term Loans</td>
<td>Long Term</td>
<td>100.00**</td>
<td>BWR A (Pronounced as BWR Single A (Outlook: Positive) ‘Reaffirmed with change in Outlook’)</td>
<td>BWR A (Pronounced as BWR Single A) (Outlook: Stable)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>29 May 18</td>
<td>27 Mar 18</td>
</tr>
<tr>
<td>2.</td>
<td>NCDs (Existing)</td>
<td>Long Term</td>
<td>275.00</td>
<td>BWR A (Pronounced as BWR Single A (Outlook: Positive) ‘Reaffirmed with change in Outlook’)</td>
<td>BWR A (Pronounced as BWR Single A) (Outlook: Stable)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>BWR A (Pronounced as BWR Single A) (Outlook: Stable)</td>
<td>2017</td>
</tr>
<tr>
<td>3.</td>
<td>NCDs (Proposed)</td>
<td>Long Term</td>
<td>25.00</td>
<td>Rating Withdrawn</td>
<td>BWR A (Pronounced as BWR Single A) (Outlook: Stable)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>BWR A (Pronounced as BWR Single A) (Outlook: Stable)</td>
<td>2017</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>375.00</td>
<td>INR Three Hundred Seventy Five Crores Only</td>
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</tbody>
</table>

** Includes proposed term loans of Rs 75.86 Crs.
Rating for Unutilised portion of Secured NCDs of Rs 25 Crs is withdrawn, at the request from the company.

**Status of non-cooperation with previous CRA:** NA

**Any Other Comments:** NA

**Hyperlink/Reference to applicable Criteria**

- General Criteria
- Banks & Financial Institutions
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