Rating Rationale
18 Nov 2026

Kerala Financial Corporation

SUMMARY OF RATING ACTION

Instruments	Tenure	Amount (₹ crore)		Rating Action & Outlook		Regulator
		Previous	Present	Previous 20 Nov 2025	Present	
NCD (Non-SLR Bonds) Listed	Long Term	62.50	**0.00**	BWR AA/ Stable (Reaffirmed)	**Withdrawal**	SEBI
NCD (Non-SLR Bonds) Listed	Long Term	250.00	**200.00**	BWR AA/ Stable (Reaffirmed)	**BWR AA/ Stable (Reaffirmed)**	SEBI
Total		312.50	**200.00**	**Rupees Two Hundred Crores Only**		

Note

1. Please refer to the BWR website www.brickworkratings.com for the definition of the ratings
2. Refer to Annexures I, II, and III for details of debt instruments, rated bank loan facilities, and the List of Entities Consolidated**.**

   The rating for the aforesaid bonds derives comfort from the built-in structured payment mechanism, cash collateral in the form of fixed deposit/ investment bond equivalent to 20% of the outstanding principal, and DSRA for outstanding NCDs of Rs 200 Crs.

RATING ACTION/OUTLOOK: REAFFIRMATION/ STABLE/WITHDRAWL

Brickwork Ratings (BWR) reaffirms the rating at BWR AA/Stable for the Non-Convertible Debentures (Non-SLR bonds) of Rs 200.00 Crores (Reduced from Rs 312.50 Crores due to redeemption of two rated NCDs on maturity (INE818F07088 on 9 July 2026 and INE818F07104 on 14 Sep 2026) of Kerala Financial Corporation and withdraws the rating for the NON-SLR Bond (Issue Series 1/2019) of Rs. 62.50 Crores (present outstanding nil), on account of full redemption.

The rating reaffirmation continues to factor in the majority ownership of the Government of Kerala (stake of 99.38%) as of 30 Sep 2026, Growth in Assets under Management (AUM) from Rs.8011.99 Crores as of FY25 to Rs. 9080.65 Crores as of FY26 which declined to Rs 8097.94 Crores as of 30 Sep 2026, comfortable capitalization with CRAR of 33.42% as of 30 Sep 2026 and adequate liquidity profile. BWR also continues to derive comfort from the built-in structured payment mechanism, cash collateral in the form of a fixed deposit/investment bond equivalent to 20% of the outstanding principal, and DSRA for outstanding NCDs of Rs.200 crore (Reduced from Rs 312.50 crore). The rating also factors in the moderate, albeit improving, asset quality in FY26. BWR maintains a stable outlook for the Corporation as its standalone performance is improving with a focus on recovery and disbursement, and expectations of growth in the AUM in the second half of FY27.

The Withdrawal of Rating of Non-SLR Bond (Issue Series 1/2019) amounting to Rs. 62.50 Crores (present outstanding nil) was on account of redemption in full upon its maturity in July 2026, as conveyed by the Corporation and confirmed by the Debenture Trustee. Withdrawal of Rating is in compliance with BWR Rating Withdrawal Policy.

KEY COVENANTS OF THE INSTRUMENT/FACILITY: (For the outstanding NCD issues aggregating to Rs. 200 Crores)

The Corporation shall, before the pay-in date, deposit into the DSRA an amount equal to the succeeding coupon payment required to be paid by the Corporation in respect of the debentures and shall maintain the same on a rolling basis.
The amount equivalent to the principal amounts repayable in each year shall be brought in by T-7 business days, and the said amount will be invested as detailed in the transaction documents, and the same will always be line-marked to the debenture trustee as explained in the transaction documents.
The Corporation shall, before the pay-in date, create permitted investments in terms of the transaction documents for an amount equivalent to 20% of the outstanding principal amount of the debentures.
At any time, if the Corporation fails to sufficiently fund the NCD interest payment account on T-7 days, the debenture trustee would initiate the liquidation of the DSRA amount to ensure proceeds are available on T-1 day towards the payment due on the NCDs by the due date, i.e. day T.
At any time, if the State Govt of Kerala ceases to own 51% of the Corporation or ceases to control the Corporation without obtaining the prior written consent of the debenture trustee (acting upon the instructions of each of the debenture holders), the debenture trustee shall be entitled to exercise any and all remedies set out in the transaction documents, in accordance with the terms and conditions in the transaction documents including, without limitation, accelerating the redemption of the debentures.

ANALYTICAL APPROACH & APPLICABLE RATING CRITERIA

Analytical Approach	Comments
Applicable Rating Criteria	• General Criteria • Approach to Financial Ratios • NBFC Criteria • Ratings of Entities based on Government Support • BWR Rating Withdrawal Policy
Parent/Group/Government Support	Government of Kerala Support
Analytical Approach (Consolidation/Standalone)	Standalone For arriving at its ratings, BWR has evaluated the risk profile of the corporation on a standalone basis. BWR has applied its rating methodology as detailed in the Rating Criteria

KEY RATING DRIVERS WITH DETAILED DESCRIPTION

Credit Strengths:

Strong support from the Government of Kerala:

- Kerala Financial Corporation ("KFC"), incorporated under the State Financial Corporations Act of 1951, benefits from the strong support received from the Government of Kerala. The primary objective of KFC is to promote industrialisation in Kerala by extending financial assistance to micro, small and medium enterprises in the manufacturing and service sectors. As of 30 Sep 2026, the Govt of Kerala had a majority shareholding of 99.38%, followed by Small Industries Development Bank of India (SIDBI) at 0.613%, Life Insurance Corporation (LIC) at 0.007%, State Bank of India (SBI) at 0.002% and others at 0.001%, respectively. Moreover, KFC is a nodal agency for several policy initiatives by the State Govt of Kerala and is responsible for implementing the state's policy initiatives announced in the annual state budget. BWR takes comfort from the Corporation's strategic importance to the state of Kerala.

Structured Payment Mechanism and Additional Comfort from Cash collateral:

- BWR also continues to derive comfort from the built-in structured payment mechanism, cash collateral in the form of a fixed deposit/investment bond equivalent to 20% of the outstanding principal, and DSRA for outstanding NCDs of Rs.200 Cr (Reduced from Rs 312.50 Cr). As of 30 Sep 2026, the corporation is in excess of the stipulated requirements of cash collateral for the said bond issuances

Comfortable capitalisation:

- The Corporation's capital-to-risk-weighted assets ratio (CRAR) stood at 33.42% as of 30 Sep 2026 (improved from 30.70% as of FY26). The Corporation continued to maintain CRAR well above the minimum regulatory requirement of 15%. The improvement in net worth to Rs 1513.28 Crores as of FY26 and the continued improvement as of 30 Sep 2026 to Rs 1615.93 Crores also contributed to comfortable capitalisation. Gearing of the Corporation also improved, with debt-to-equity declining to 5.11x as of 30 Sep 2026 as compared to 5.85x as of 31 March 2026.

Credit Risks:

Improving but modest Asset Quality:

- Asset quality of the Corporation continued to improve as of FY26 as compared to FY25, as Gross NPA (%) reduced from 2.67% in FY25 to 2.32% in FY25. Net NPA (%) also improved from 0.61% in FY25 to 0.43% in FY26. As of FY26, the Standard assets stood at 96.69% of the loan portfolio. The Provision Coverage Ratio is maintained at a comfortable level of 89.30%.(an increase from 86.41% as of FY25) This indicates the corporation has sufficient provisions to withstand losses. The corporation has a well-built monitoring mechanism for recovery of loans, which resulted in an increase in collections by 35.39% to Rs 5389.37 Crores as of FY26 compared to Rs 3980.76 Crores as of FY25.

- GNPA, however, increased to 3.83% as of 30 Sep 2026 from 3.44% as of 30 June 2026. NNPA ratio stood at 1.60%, higher than 1.25% as of 30 June 2026. As per the Corporation, while preparing the interim financials, the Corporation provides only the minimum NPA provision required as per RBI norms (15% for S2- Substandard and 25% for D1- Doubtful debts 1) as against the higher provision given on 31 March 2026 (77% for S2 and D1 is fully written off technically). The Corporation does not technically write off any bad debts while preparing the quarterly financials. Hence, the Gross and net NPA as of 30 Sep 2026 is before the technical write-off of bad debts and incremental NPA provisioning, and hence it is on the higher side when compared to 31 March 2026. The Corporation expects the gross NPA and net NPA to be below FY26 levels (GNPA 2.32% and NNPA 0.43%) by FY26.

Moderate albeit improving Profitability:

- In FY26, net profit grew by 12.81% to Rs 110.73 crore compared to Rs 98.16 crore in FY25, primarily driven by a 15.94% increase in total income to Rs 1,045.09 crore (up from Rs 901.39 crore in FY25). Net interest income rose by 20.46% to Rs 133.14 crore from Rs 110.53 crore, supported by a 13.71% growth in interest income to Rs 815.84 crore. Additionally, other income increased by 20.21% to Rs 105.65 crore (versus Rs 87.89 crore in FY25), largely anchored by interest on bank deposits, which rose to Rs 92.53 crore from Rs 74.44 crore. Despite bottom-line growth, Return on Equity (ROE) and Return on Assets (ROA) saw marginal dips to 7.32% and 1.22%, respectively, from 7.39% and 1.23% in FY25, owing to a denominator effect as growth in equity (13.91%) and Assets Under Management (13.34%) outpaced net profit growth.

- During Q2FY27, net profit surged by 78.80% year-on-year to Rs 67.30 crore from Rs 37.64 crore in Q2FY26, driven by a 5.24% rise in total income and a 12.12% increase in interest income to Rs 246.56 crore (up from Rs 219.90 crore in Q2FY26). This higher interest income also contributed a 85.77% jump in net interest income to Rs 72.84 crore, compared to Rs 39.21 crore in Q2FY26.. Similarly, for H1FY27, net profit grew by 8.05% to Rs 102.80 crore from Rs 95.14 crore in H1FY26, backed by a 2.53% increase in total income to Rs 503.29 crore and a 5.85% rise in interest income to Rs 466.09 crore (Rs 440.35 crore in H1FY26). Consequently, net interest income for the half-year period expanded by 14.01% to Rs 109.97 crore from Rs 96.46 crore in H1FY26.

RATING SENSITIVITY FACTORS

Going forward, the corporation's ability to improve the earnings profile and asset quality while maintaining portfolio growth will be key rating sensitivities.

Positive:

- The corporation's ability to improve the earnings profile and asset quality, gearing levels below 2x levels while maintaining portfolio growth is a key rating positive.

Negative:

- The substantial weakening of the asset quality and earnings profile and/or a deterioration in capitalisation, i.e., CRAR below 25%, will be the key rating negatives.

LIQUIDITY POSITION: ADEQUATE

Adequate liquidity is characterized by sufficient Cash and bank balances of Rs 195.99 crores, which is more than sufficient to meet the coupon servicing on NCDs falling due in Sep 2027, amounting to Rs. 50 crores. Further, the Corporation's overall liquidity profile remains adequate with no negative cumulative mismatches in the near to medium term as per ALM dated 31 March 2026 and 30 Sep 2026. Given the aforesaid, the liquidity is adequate

The Corporation also had Rs 460 Crores of unutilised bank limits as of 30 Sep 2026. It has average monthly collections of Rs 449 Crores in FY26, with annual collections of Rs 5389.37 Crores for FY26. Further, the Corporation collected Rs 3242.36 Crores with an average monthly collection of Rs 540.39 Crores during H1 FY27 (April 2026 to September 2026). The Company's repayment obligations for the next twelve months ending 30 September 2027 are Rs 1637 Crores.

Further, the rated bonds have cash collateral in the form of a fixed deposit equivalent to 20% of the outstanding principal. Also, the Corporation shall, prior to the pay-in date, deposit into the DSRA an amount equal to the succeeding coupon/ principal payment, and shall maintain the same on a rolling basis. At any time, if the Corporation fails to fund the NCD interest / principal payment account on T-7 days, the debenture trustee would initiate the liquidation of the DSRA amount to ensure proceeds are available on T-1 day. Hence, liquidity is considered to be adequate.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) PRACTICES:

The Corporation exhibits an adequate ESG profile based on its environmental, social, and governance practices.

Environmental: Environmental evaluation considers lending restrictions on environmentally sensitive sectors and the extent of support for green or sustainable financing products (such as sustainable livelihood activities, including dairy farming).

Social: Social assessment covers employee welfare initiatives, diversity and inclusion practices (women workforce 12%, as all the directors are women), and financial-inclusion measures. Customer service and grievance-resolution systems, data privacy and information-security measures, and community development or CSR initiatives.

Governance: Governance analysis includes the effectiveness of investor and stakeholder grievance-redressal mechanisms, the structure and independence of the board (with 12% independent directors and a maximum tenure of 5 years), adherence to regulatory and ethical standards, and workforce-governance policies promoting fairness and equity.

COMPANY/FIRM PROFILE

Industry Classification			
Macroeconomic Indicator	**Sector**	**Industry**	**Basic Industry**
Financial Services	**Financial Services**	**NBFC**	**NBFC**

Kerala Financial Corporation, incorporated under the State Financial Corporations Act of 1951, is a public sector enterprise under the administrative control of the Govt of Kerala with the objective of promoting the industrialisation of the state by extending financial assistance to micro, small and medium enterprises in the manufacturing and service sectors. The financial assistance is provided in the form of term loans, working capital loans and special schemes. Shri Minhaj Alam, IAS, is the present chairman of KFC. The board of directors of the corporation consists of seven members, including representatives from the state government and other stakeholders. KFC now has 24 branch offices with its headquarters in Thiruvananthapuram. 99.38% of the shares of the Corporation are owned by the Government of Kerala as of 30 Sep 2026. The main objective of the Corporation is to boost industrial growth in the state by strengthening the MSME industrial sector.

KEY FINANCIAL INDICATORS

Standalone Financial Indicators	Unit	FY25 (A)	FY26 (A)	6M FY27 (UA)
Asset Under Management	in ₹ crore	8011.99	9080.65	8097.94
Total Income	in ₹ crore	901.39	1045.09	503.29
PAT	in ₹ crore	98.16	110.73	102.8
CRAR	%	28.65	30.70	33.42
Gross NPA ratio	%	2.67	2.32	3.83
Net NPA ratio	%	0.61	0.43	1.60

A: Audited; UA: Unaudited. **Note:** These are the latest available financial results. Amount in ₹ crore.

RATING HISTORY FOR THE PREVIOUS THREE YEARS

	Current Rating			Rating History					
	(Nov 2026)			FY25		FY24		FY23	
Instrument	Type	Amount (in ₹ cr)	Rating	Date	Rating	Date	Rating	Date	Rating
NCD (Non-SLR Bonds)	Long Term	0.00	Withdawn	**20 Nov 2025**	BWR AA/ Stable (Reaffirmed)	22 Nov 2024	BWR AA/ Stable (Reaffirmed)	27 Nov 2023	BWR AA/ Stable (Reaffirmed)
NCD (Non-SLR Bonds)		200..00	BWR AA/ Stable (Reaffirmed	**23 Sep 2025**	BWR AA/ Stable (Reaffirmed)	22 Nov 2024	BWR AA/ Stable (Reaffirmed)	27 Nov 2023	BWR AA/ Stable (Reaffirmed)
Total		**200.00**		**Rupees Two Hundred Crores Only**					

COMPLEXITY LEVEL OF THE RATED INSTRUMENTS

Instrument	Complexity Indicator
Non-Convertible Debentures (NCDs) (Non-SLR bonds)	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects.

Details on the complexity levels of the instruments are available on BWR's website www.brickworkratings.com/download/ComplexityLevels.pdf

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY):

No non-cooperation rating with other Credit Rating Agencies.

ANY OTHER INFORMATION: Not Available

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ANNEXURE I: Details of Instruments / Facilities

Name of the Instrument / Facility	Long Term/ Short Term	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ Cr)	Rating Assigned and Rating Outlook	Regulator
NON SLR BOND (ISSUE SERIES 1/2019)	Long Term	INE818F07088	9 July 2019	8.99	9 July 2026	NIL*	BWR AA/ Stable / Reaffirmed	SEBI
NON SLR BOND (ISSUE	Long Term	INE818F07104	14 Sep 2020	7.70	14 Sep 2026	NIL*	BWR AA/ Stable / Reaffirmed	SEBI
	Long Term	INE818F07112	14 Sep 2020	7.70	14 Sep 2027	50.00	BWR AA/ Stable / Reaffirmed	SEBI

SERIES 1/2020)	Long Term	INE818F07120	14 Sep 2020	7.70	14 Sep 2028	50.00	BWR AA/ Stable / Reaffirmed	SEBI
	Long Term	INE818F07138	14 Sep 2020	7.70	14 Sep 2029	50.00	BWR AA/ Stable / Reaffirmed	SEBI
	Long Term	INE818F07146	14 Sep 2020	7.70	14 Sep 2030	50.00	BWR AA/ Stable / Reaffirmed	SEBI
Total						**200.00**		

Redeemed

ANNEXURE II: Details of Bank Facilities

Type	Facilities	Tenor	Bank	Regulator
NA	NA	NA	NA	NA

ANNEXURE III: List of Entities Consolidated

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
NA	NA	NA	NA

Annexure IV: List of Instruments and Names of Regulators of the Instruments

As required by SEBI CRA Circular dated Feb 10, 2026, a list of activities or instruments falling under the purview of various FSRs, along with the names of the respective FSRs, is being disclosed below:

No.	Instrument/Activity Name	Regulator of the Instruments
1	Listed/Proposed to be listed bonds/debentures/preference shares (all securities)	SEBI
2	Unlisted/Proposed to be unlisted Bonds/Debentures/ Preference share (all securities)	MCA
3	Listed PTCs / Securitisation Notes (originated by entities regulated by RBI)* $	RBI
4	Listed PTCs / Securitisation Notes (originated by entities not regulated by RBI)*	SEBI
5	Unlisted PTCs / Securitisation Notes (originated by entities regulated by RBI)*	RBI
6	Listed Commercial Paper and NCDs with original maturity less than 1 year	RBI
7	Unlisted Commercial Paper and NCDs with original maturity less than 1 year	RBI
8	Loan Facilities (Fund/Non-Fund Based) from Bank/NBFCs/NHB/FIs ^	RBI
9	External Commercial Borrowings and other similar borrowings	RBI
10	Certificates of Deposit	RBI
11	Fixed Deposits raised by NBFCs, HFCs, FIs	RBI
12	Fixed Deposits raised by corporates other than NBFCs, Banks, HFCs, FIs	MCA
13	Inter-Corporate Deposits/Loans extended by Corporates	MCA
14	Borrowing programme ~	-
15	Issuer Ratings #	-
16	Credit Ratings for Capital Protection Oriented Schemes (by Mutual Funds and AIFs)	SEBI
17	Credit quality ratings (CQRs) for Mutual Fund Schemes and Schemes of AIFs	SEBI

18	Listed Security Receipts $	RBI
19	Unlisted Security Receipts	RBI
20	Independent Credit Evaluation (ICE)	RBI
21	Expected Loss Ratings (Listed/Proposed to be listed bonds/debentures/preference shares (all securities))	SEBI
22	Expected Loss Ratings (Unlisted/Proposed to be unlisted Bonds/Debentures/ Preference share (all securities))	MCA
23	Unlisted PTCs / Securitisation Notes (originated by entities not regulated by RBI) *	Investor-side regulator such as IRDAI, PFRDA @

* Includes securitisation transactions involving assignee payout, acquirer's payout.
~ The rated instrument may involve issuance of different instruments such as debt securities (listed or otherwise), bank loans, commercial paper (listed or otherwise), etc. The regulator of the instrument may accordingly be SEBI, RBI or MCA and can only be determined upon issuance. In PRs subsequent to issuance(s), Brickwork Ratings India Private Limited (BWR) shall separately capture the rated quantum details along with names of respective regulators.
^ Includes bank facilities such as liquidity facility, second loss facility that are part of securitisation transactions.
# There is no instrument being rated and hence, the Regulator of the Instrument is not applicable. The rating scale and definitions are being followed as stipulated in the SEBI Master Circular for CRAs.
@ These ratings were assigned during the regulatory regime prior to the introduction of the SEBI CRA Circular dated Feb 10, 2026, and the investor-side regulators have accordingly been included.
$ By virtue of the instrument being listed, SEBI acts as the regulator for listing and related issues.

Grievance Management

For any grievances relating to rating of instruments regulated by SEBI, please contact **sebigrievance@brickworkratings.com.** Kindly note that for activities or instruments falling under the purview of FSRs other than SEBI, the grievance/dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.
For any grievances relating to rating of instruments regulated by other FSRs (Financial Services Regulators), please contact **grievance@brickworkratings.com**

Disclosure of Conflict of Interest

BWR Board of Directors has no influence over rating decisions, nor do they sit on the rating committees or review, discuss, or evaluate any credit ratings during the Board meetings.

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Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and is accredited by the Reserve Bank of India [RBI]. BWR is the 5th agency to get a credit rating registration in India in 2009, and its corporate office in Bengaluru. It has a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi, along with representatives in 150+ locations. Canara Bank is Brickwork's strategic partner.

Brickwork offers credit ratings of bank loans, Non- convertible/convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporate and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Urban Local Bodies and Municipal Corporations.

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