



## Press Release

### Kerala Financial Corporation (KFC)

### Revised Press Release

**February 28, 2025**

This is with reference to the press release dated December 13, 2023. The revised press release stands as below: The revised press release consists of additional details as mentioned below as per the regulatory guidelines:

- Rating criteria regarding policy on default recognition.
- Rating criteria regarding complexity level of rated instruments/facilities.

Link to the press release dated December 13, 2023, published on Infomerics' website:

<https://www.infomerics.com/admin/uploads/pr-Kerala-Financial-Corporation-13dec23.pdf>

#### **Ratings**

| <b>Instrument / Facility</b>        | <b>Amount (Rs. crore)</b>          | <b>Current Ratings</b>  | <b>Previous Ratings</b>                                 | <b>Rating Action</b> | <b><u>Complexity Indicator</u></b> |
|-------------------------------------|------------------------------------|---|---|----------------------|------------------------------------|
| Non-Convertible Debentures          | 0.00<br>(Decreased from 50.00)     | -   | IVR AA/<br>Stable<br>(IVR Double A with Stable Outlook) | Withdrawn            | Simple                             |
| Non-Convertible Debentures          | 1202.70<br>(Increased from 594.00) | IVR AA/<br>Stable<br>(IVR Double A with Stable Outlook)                                     | IVR AA/<br>Stable<br>(IVR Double A with Stable Outlook) | Rating reaffirmed    | Simple                             |
| Proposed Non-Convertible Debentures | 1000.00                            | IVR AA/<br>Stable<br>(IVR Double A with Stable Outlook)                                     | --  | Assigned             | Simple                             |
| <b>Total</b>                        |                                    | <b>2202.70.00<br/>(Rupees Two Thousand Two Hundred and Two Crore and Seventy Lakh Only)</b> |   |                      |                                    |



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**Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.**

### **Detailed Rationale**

Infomerics ratings assigned/reaffirmed the ratings to the Non-Convertible Debentures (NCDs) of Kerala Financial Corporation (KFC or the "Corporation") continues to derive strength from the ownership of Government of Kerala and strategic importance of KFC in achieving the socio-economic objectives of the government, comfortable capitalisation, consistent growth in loan portfolio and structured payment mechanism for the NCDs. However, the ratings are constrained by moderate financial profile of Government of Kerala, average, albeit improving asset quality and moderate profitability coupled with high gearing.

The stable outlook reflects the continued benefits derived by Corporation from Govt of Kerala and expectations of AUM growth along with stable earnings profile over FY24-FY26 on the back of comfortable capitalisation levels.

The rating for Rs.50.00 crore NCDs has been withdrawn based on the client request and receiving of 'No Due Certificate' post redemption as per the due date. The rating is withdrawn in line with Infomerics' policy on withdrawal.

### **Key Rating Sensitivities:**

#### **Upward Factors**

- Substantial scaling up its operations, improving its profitability, while maintaining healthy asset quality, capital position and liquidity.
- Substantial improvement in the fiscal position of Government of Kerala

#### **Downward Factors**

- Movement in the collection efficiency which impacts the asset quality significantly thereby increasing the credit cost and impacts the profitability for the Company.



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- Substantial deterioration in the fiscal position of Government of Kerala

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### **Ownership of Government of Kerala and strategic importance of the corporation**

Kerala Financial Corporation (KFC) was incorporated under the State Financial Corporations Act of 1951, with an objective of development and industrialization of Kerala, extending financial assistance to Micro, Small and Medium Enterprises in manufacturing and service sector. The Govt of Kerala holds majority shareholding of 99.00%, followed by Small Industries Development Bank of India (SIDBI) (0.97%), Life Insurance Corporation (LIC) (0.01%) and State Bank of India (SBI) at (0.003%). KFC also acts as a nodal agency for several policy initiatives of the State Govt and is responsible for implementing the state's policy initiatives announced in the annual state budget. Given the strategic importance of the corporation in overall growth of the state and implementation of its schemes/policies of the state government, the corporation receives regular financial support from the state government.

Given the support from GoK is critical to the corporation, the credit profile of Kerala state is of key importance. The state's fiscal headroom was impacted by the COVID outbreak as the state highly depends on tourism. However, the same starts to rebound from FY23., the overall fiscal health of the state over the medium term is expected to stay satisfactory.

##### **Comfortable Capitalisation**

The corporation is comfortably capitalised with total CRAR of 25.58% as against the minimum regulatory requirement of 15% in FY23 (refers to period from April 1st, 2022, to Mar 31, 2023) as against 22.41% in FY22. The corporation has a tangible net worth of Rs 917.04 Crores as on 31 March 2023 as against Rs. 688.87 Crores as on 31 March 2022. As on Sept 30, FY24 CAR and Tangible Net worth stood at 25.00% and Rs. 917.04 Crores respectively.

##### **Consistent growth in loan portfolio**

Given its objective to provide financial assistance to the MSME and Service sector which results in overall growth of economy of the state, the loan portfolio has consistently grown over the years on the back of increased sanctions and disbursements. Sanctions have increased



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from Rs 2877.00 Crores in FY22 to Rs 3207.22 Crores in FY23. Disbursement also increased from Rs 2175.00 Crores in FY22 to Rs 3555.95, Loan Portfolio increased from Rs.4750.71 crores to 6529.40 Crores in FY23. Further, it has grown to Rs 7000.34 Crores in H1FY24.

### **Structured payment mechanism**

The bonds issued by corporation have a strong structure and inbuilt payment mechanism apart from the charge on receivables which helps them to raise bonds at competitive rates. Outstanding bonds which are raised till FY22 of Rs. 452.70 Crores and Rs. 750.00 Crores which are raised in FY23 are secured by “Debt Service Reserve Account” where an amount equivalent to 2 quarters debt repayment (Principal and Interest) is maintained throughout the tenure of the bonds, cash collateral in the form of fixed deposit equivalent to 10% (for Bonds raised till FY22) & 20% ( for bonds raised in FY23 ) of the outstanding principal and amount equivalent to principal repayment of respective year shall be brought in by T-7 (T is the due date) and the said amount will be invested in permitted investments. The maturity proceeds of the said investment will be credited directly to the designated escrow account and will be utilized for principal redemption process.

For the proposed NCDs of Rs 1000.00 Crores, are secured by “Debt Service Reserve Account” where an amount equivalent to 2 quarters debt repayment (Principal and Interest) is maintained throughout the tenure of the bonds, cash collateral in the form of fixed deposit equivalent to 10% of the outstanding principal and the presence of Structured Payment Mechanism wherein starting from the 1st day of each quarterly servicing cycle, KFC should remit on every working day an amount equivalent to 2.00% of the aggregate servicing requirement for such quarterly servicing cycle to the bond servicing account. The Debenture Trustee shall monitor the same on T-15 day (T is the due date) and any shortfall persisting on T-10th day shall be met through transfer of requisite funds from the DSRA. Both, the Cash Collateral and DSRA would be in the form of cash and cash equivalent, invested in permitted instruments and would remain charged in favour of the debenture trustee. In case of any erosion from the DSRA due to transfer of funds in bond servicing account, the same shall be required to be cured within 30 days (T+30).

### **Key Rating Weaknesses**



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### **Moderate financial profile of Government of Kerala**

The Gross State Domestic Product (GSDP) of the state for 2023-24 (at current prices) is projected to be Rs 11.30 lakh crore amounting to growth of 11.20% over 2022-23. Fiscal deficit for 2023-24 is targeted at 3.5% of GSDP (Rs 39,662 crore). In 2022-23, as per the revised estimates, fiscal deficit is expected to be 3.6% of GSDP, lower than the budget estimate of 3.9% of GSDP. Revenue deficit in 2023-24 is estimated to be 2.1% of GSDP (Rs 23,942 crore), marginally higher than the revised estimates for 2022-23 (2% of GSDP). In 2022-23, the revenue deficit is expected to be lower than the budget estimate (2.3% of GSDP).

### **Average, albeit improving asset quality**

Given the socio-economic objective of the corporation, where it provides financial assistance to MSME in manufacturing and service sector and given the impact of demonetization and COVID 19 on the MSME sector, the asset quality of the company was impacted. Despite the stress witnessed, the corporation was able to improve its asset quality due to its recovery efforts and persistent monitoring. GNPA and NNPA of the corporation reduced to 3.11% and 0.74% respectively in FY23 from 3.27% and 1.28% respectively in FY22. However, the company has maintained comfortable levels of provision coverage ratio of ~84.89% for FY23. Infomerics believes that given the business model of the corporation and its exposure to MSME sector, the asset quality continues to be under pressure. In H1FY24, the asset quality moderated with GNPA and NNPA increasing to 5.10% and 3.20% respectively.

### **Moderate profitability coupled with high gearing.**

As the corporation provides loans at subsidised costs, the NIMs of the corporation remain low in the range of 2-3% and given the high impairment cost (Rs 155.40 Crores for FY23 and Rs 156.97 Crores in FY22), the profitability remains comfortable with ROTA of 0.80%, RONW of 6.14% , PAT margin have been improved to 12.39% for FY23 from 6.76% in FY22. Also, the majority of the loan portfolio growth is funded by external debt and hence the gearing of the corporation remains high at 6.75x in FY23. Going forward, the ability of the corporation to infuse more capital and bring down the gearing levels will be a key rating monitorable.

**Analytical Approach:** Standalone

**Applicable Criteria:**





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[Rating Methodology for Non-Banking Finance companies](#)

[Policy on Default Recognition and Post – Default Curing Period](#)

[Criteria of assigning rating outlook](#)

[Complexity level of rated instruments/Facilities](#)

[Criteria for Government support](#)

[Policy on withdrawal of ratings](#)

### **Liquidity –Adequate**

The company is adequately capitalized with a CAR (%) of 25.58% as on 31 March 2023, and Net worth of Rs 917.04 Crores. Also, it has adequately matched asset liability profile as on 31 July 2023. As on 31 March 2023, the company has cash and bank balances of Rs 65.85 Crores the same has increased to Rs. 200.00 Crores for H1FY24.

### **About the Company**

Kerala Financial Corporation (KFC) was incorporated under the State Financial Corporations Act of 1951 with an objective of rapid industrialization of the state by extending financial assistance to Micro, Small and Medium Enterprises in manufacturing and service sector. It was established as the Travancore Cochin Financial Corporation on 01.12.1953. Consequent to the reorganization of states on linguistic basis in November 1956, Kerala State was formed, and the Travancore Cochin Financial Corporation was renamed as Kerala Financial Corporation. KFC has 21 Branch Offices with its Head Quarters at Thiruvananthapuram and Zonal Offices at Kozhikode, Ernakulam and Thiruvananthapuram. Shri Sanjay Kaul, IAS is the current Chairman and Managing Director of KFC. KFC also acts as a state Nodal Agency for several policy initiatives by the State Government of Kerala (GoK) and is responsible to implement the states policy initiatives announced in the annual state budget. The board of KFC includes representation from Government of Kerala. The Board of Directors comprise 3 bureaucrats appointed by the Government of Kerala and the other directors representing SIDBI, LIC of India, and State Bank of India (erstwhile State bank of Travancore). The Government of Kerala holds 99.00% stake in the corporation and is expected to support the corporation as and when required, given its systemic importance to the state.



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Financials (Standalone)\*:

Rs in Crores

| For the year ended/As on* | 31-03-2022 | 31-03-2023 |
|---------------------------|------------|------------|
|                           | (Audited)  | (Audited)  |
| Total Income              | 518.17     | 694.38     |
| PAT                       | 13.20      | 50.19      |
| Tangible net worth        | 690.58     | 917.04     |
| Total debt                | 4,308.87   | 6,186.92   |
| AUM                       | 4,750.72   | 6,529.40   |
| <b>Ratios</b>             |            |            |
| NIM (%)                   | 2.27       | 2.34       |
| Total CRAR (%)            | 22.41      | 25.58      |
| Gross NPA [Stage III] (%) | 3.27       | 3.11       |
| Net NPA [Stage III] (%)   | 1.28       | 0.74       |
| Overall gearing (x)       | 6.24       | 6.75       |
| Interest Coverage (x)     | 1.12       | 1.21       |

\*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA

Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Ratings (Year 2023-24) |                                |                | Rating History for the past 3 years                  |   |   |
|---------|-------------------------------|--------------------------------|--------------------------------|----------------|--|---|---|
|         |                               | Type                           | Amount outstanding (Rs. Crore) | Rating         | Date(s) & Rating(s) assigned in 2022-23 Feb 21, 2023 | Date(s) & Rating(s) assigned in 2020-21 | Date(s) & Rating(s) assigned in 2019-20 |
| 1.      | NCDs                          | Long Term                      | 0.00                           | -              | IVR AA/ Stable                                       | -                                       | -                                       |
| 2.      | NCDs                          | Long Term                      | 1202.70                        | IVR AA/ Stable | IVR AA/ Stable                                       | -                                       | -                                       |
| 3.      | Proposed NCDs                 | Long Term                      | 1000.00                        | IVR AA/ Stable | IVR AA/ Stable                                       | -                                       | -                                       |



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### About Infomerics:

Infomerics Valuation And Rating Ltd. (Infomerics) [Formerly Infomerics Valuation and Rating Pvt. Ltd.] was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit [www.infomerics.com](http://www.infomerics.com).

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of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors

### Annexure 1: Details of Facilities:

| Name of Facility/<br>Instrument | ISIN         | Date of Issuance | Coupon Rate/<br>IRR % | Maturity Date | Size of Facility | Rating        |
|---------------------------------|--------------|------------------|-----------------------|---------------|------------------|---------------|
|                                 |              |                  |                       |               | (Rs. Crore)      |               |
| NCDs                            | INE818F07104 | 14/09/2020       | 7.70                  | 14/09/2026    | 50.00            | IVR AA/Stable |
| NCDs                            | INE818F07112 | 14/09/2020       | 7.70                  | 14/09/2027    | 50.00            | IVR AA/Stable |
| NCDs                            | INE818F07120 | 14/09/2020       | 7.70                  | 14/09/2028    | 50.00            | IVR AA/Stable |
| NCDs                            | INE818F07138 | 14/09/2020       | 7.70                  | 14/09/2029    | 50.00            | IVR AA/Stable |
| NCDs                            | INE818F07146 | 14/09/2020       | 7.70                  | 14/09/2030    | 50.00            | IVR AA/Stable |
| NCDs                            | INE818FO7070 | 09/07/2019       | 8.99                  | 09/07/2024    | 62.50            | IVR AA/Stable |
| NCDs                            | INE818FO7062 | 09/07/2019       | 8.99                  | 09/07/2025    | 62.50            | IVR AA/Stable |
| NCDs                            | INE818FO7088 | 09/07/2019       | 8.99                  | 09/07/2026    | 62.50            | IVR AA/Stable |
| NCDs                            | INE818F07047 | 04/04/2018       | 8.69                  | 04/04/2024    | 10.45            | IVR AA/Stable |
| NCDs                            | INE818F07054 | 04/04/2018       | 8.69                  | 04/04/2025    | 4.75             | IVR AA/Stable |
| NCDs                            | INE818F07153 | 24/03/2023       | 8.90                  | 30/03/2029    | 95.30            | IVR AA/Stable |
| NCDs                            | INE818F07161 | 24/03/2023       | 8.90                  | 29/03/2030    | 95.30            | IVR AA/Stable |
| NCDs                            | INE818F07179 | 24/03/2023       | 8.90                  | 31/03/2031    | 95.30            | IVR AA/Stable |
| NCDs                            | INE818F07187 | 24/03/2023       | 8.90                  | 31/03/2032    | 95.30            | IVR AA/Stable |
| NCDs                            | INE818F07195 | 24/03/2023       | 8.90                  | 24/03/2033    | 95.30            | IVR AA/Stable |



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|               |              |            |      |            |         |               |
|---------------|--------------|------------|------|------------|---------|---------------|
| NCDs          | INE818F07229 | 24/03/2023 | 8.63 | 30/03/2029 | 54.70   | IVR AA/Stable |
| NCDs          | INE818F07237 | 24/03/2023 | 8.63 | 29/03/2030 | 54.70   | IVR AA/Stable |
| NCDs          | INE818F07211 | 24/03/2023 | 8.63 | 31/03/2031 | 54.70   | IVR AA/Stable |
| NCDs          | INE818F07245 | 24/03/2023 | 8.63 | 31/03/2032 | 54.70   | IVR AA/Stable |
| NCDs          | INE818F07203 | 24/03/2023 | 8.63 | 24/03/2033 | 54.70   | IVR AA/Stable |
| Proposed NCDs |              |            |      |            | 1000.00 | IVR AA/Stable |
| Total         |              |            |      |            | 2202.70 |               |

**Annexure 2: Facility wise lender details: (hyperlink to be added)**

**Annexure 3: Detailed explanation of covenants of the rated instrument/facilities:**

**Key Terms for the NCD issue of Rs 31.50 Crores - INE818F07039\* for Rs 16.30 Crores , INE818F07047 for Rs 10.45 Crores and INE818F07054 for Rs 4.75 Crores**

|                          |   |
|--------------------------|---|
| Instrument name          | SECURED, RATED, LISTED, REDEEMABLE, TAXABLE NON-CONVERTIBLE DEBENTURES.   |
| Issuer                   | Kerala Financial Corporation  |
| Issue size               | Rs 31.50 Crores (INE818F07039 for Rs 16.30 Crores, INE818F07047 for Rs 10.45 Crores and INE818F07054 for Rs 4.75 Crores)  |
| Issue date               | 04/04/2018  |
| Maturity date            | 04/04/2023, 04/04/2024 and 04/04/2025 respectively  |
| Coupon (Fixed)           | 8.69%   |
| Coupon payment frequency | Half yearly   |
| Objects of the issue     | Working capital requirements  |
| Redemption structure     | Each series would be redeemed in 4 equal instalments of 5% of the aggregate issue size, with redemption of Series A starting from the end of 21 <sup>st</sup> quarter, Series B starting from end of 25 <sup>th</sup> quarter and so on.    |
| Key Covenants            | The Corporation shall, prior to 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. |



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|  |  |
|--|--|
|  | <p>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 lien-marked to the debenture trustee as explained in transaction documents.</p> <p>The Corporation shall, prior to the pay-in date, create permitted investments in terms of transaction documents for an amount equivalent to 20% of the outstanding principal amount of the debentures.</p> <p>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.</p> <p>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.</p> |
|--|--|

**\*Redeemed as per the schedule**

**Key Terms for the NCD issue of Rs 250.00 Crores - INE818F07096\*, INE818F07070, INE818F07062 and INE818F07088 for Rs 62.50 Crores each**

|                          |  |
|--------------------------|--|
| Instrument name          | SECURED, RATED, LISTED, REDEEMABLE, TAXABLE NON-CONVERTIBLE DEBENTURES.  |
| Issuer                   | Kerala Financial Corporation   |
| Issue size               | Rs 250 Crores (INE818F07096, INE818F07070, INE818F07062 and INE818F07088 for Rs 62.50 Crores each)   |
| Issue date               | 09/07/2019   |
| Maturity date            | 09/07/2023, 09/07/2024, 09/07/2025 and 09/07/2026 respectively   |
| Coupon (Fixed)           | 8.99%  |
| Coupon payment frequency | Half yearly  |
| Objects of the issue     | Working capital requirements   |
| Redemption structure     | Each series would be redeemed in 4 equal instalments of 5% of the aggregate issue size, with redemption of Series A starting from the end of 21 <sup>st</sup> quarter, Series B starting from end of 25 <sup>th</sup> quarter and so on. |



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|---------------|---|
| Key Covenants | <p>The Corporation shall, prior to 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.</p> <p>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 lien-marked to the debenture trustee as explained in transaction documents.</p> <p>The Corporation shall, prior to the pay-in date, create permitted investments in terms of transaction documents for an amount equivalent to 20% of the outstanding principal amount of the debentures.</p> <p>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.</p> <p>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.</p> |
|---------------|---|

**\*Redeemed as per the schedule**

**Key Terms for the NCD issue of Rs 250.00 Crores - INE818F07104, INE818F07112, INE818F07120, INE818F07138, INE818F07146 for Rs 50.00 Crores each**

|                          |   |
|--------------------------|---|
| Instrument name          | RATED, LISTED, SECURED, REDEEMABLE, NON-CONVERTIBLE DEBENTURES.   |
| Issuer                   | Kerala Financial Corporation  |
| Issue size               | Rs 250 Crores (INE818F07104, INE818F07112, INE818F07120, INE818F07138, INE818F07146 for Rs 50.00 Crores each)       |
| Issue date               | 14/09/2020  |
| Maturity date            | 14/09/2026, 14/09/2027, 14/09/2028, 14/09/2029 and 14/09/2030 respectively  |
| Coupon (Fixed)           | 7.70%   |
| Coupon payment frequency | Half yearly   |
| Objects of the issue     | Working capital requirements  |
| Redemption structure     | Each series would be redeemed in 4 equal instalments of 5% of the aggregate issue size, with redemption of Series A |



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|               |   |
|---------------|---|
|               | starting from the end of 21 <sup>st</sup> quarter, Series B starting from end of 25 <sup>th</sup> quarter and so on.  |
| Key Covenants | <p>The Corporation shall, prior to 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.</p> <p>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 lien-marked to the debenture trustee as explained in transaction documents.</p> <p>The Corporation shall, prior to the pay-in date, create permitted investments in terms of transaction documents for an amount equivalent to 20% of the outstanding principal amount of the debentures.</p> <p>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.</p> <p>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.</p> |

**Key Terms for the NCD issue of Rs 273.50 Crores - INE818F07229, INE818F07237, INE818F07211, INE818F07245, INE818F07203 for Rs 54.70 Crores each**

|                          |  |
|--------------------------|--|
| Instrument name          | SENIOR, SECURED, RATED, LISTED, REDEEMABLE, TAXABLE NON-CONVERTIBLE DEBENTURES                                   |
| Issuer                   | Kerala Financial Corporation   |
| Issue size               | Rs 273.50 Crores (INE818F07229, INE818F07237, INE818F07211, INE818F07245, INE818F07203 for Rs 54.70 Crores each) |
| Issue date               | 02/05/2023   |
| Maturity date            | 30/03/2029, 29/03/2030, 31/03/2031, 31/03/2032 and 24/03/2033 respectively                                       |
| Coupon (Fixed)           | 8.63%  |
| Coupon payment frequency | Quarterly  |
| Objects of the issue     | Working capital requirements   |





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|   |   |
|---|---|
| Redemption structure  | Each series would be redeemed in 4 equal instalments of 5% of the aggregate issue size, with redemption of Series A starting from the end of 21 <sup>st</sup> quarter, Series B starting from end of 25 <sup>th</sup> quarter and so on.  |
| Conditions for breach of covenants (as specified in Debenture Trust Deed) | Breach of any covenants other than those in respect of payment default and maintenance of security cover would have a cure period of 30 days beyond which it would be construed as an event of default (EOD)  |
| Cash Collateral   | The Issuer shall, prior to the Pay-in Date, create permitted investments in terms of the Transaction Documents ("Cash Collateral Permitted Investments") for an amount equivalent to 10% (Ten percent) of the outstanding principal amount of the Debentures ("Cash Collateral Amount"). The Issuer hereby agrees and undertakes that the Issuer shall, at all times maintain an amount equivalent to the Cash Collateral Amount as permitted investments in terms of the Transaction Documents and the same shall always be lien marked to the debenture trustee as detailed in the Transaction Documents. In case of any erosion in Debt Service Reserve Account as mentioned under structured payment mechanism not getting cured within 30 days after servicing (i.e T+30), the erosion shall be made good by transferring necessary amount of funds / investments to the DSRA. The Debenture Trustee should immediately inform the issuer about this event with an advise to Replenish the Cash Collateral Permitted Investment within the next 30 days (T+60) |
| Debt Service Reserve Account (DSRA)                                       | The Issuer would be required to open a designated escrow account - "KFC DSRA Account Series II 2023" exclusively for the benefit and charged to the Debenture Trustee (on behalf of the bondholders). In case of further series of issuances, the Issuer shall open similar accounts (Series III, Series IV, etc.) An amount equivalent to the total servicing obligation (Principal & Interest) of the outstanding bonds for the next 2 quarters would need to be maintained by the Issuer in the DSRA account on rolling basis and the initial DSRA amount so calculated would need to be deposited atleast one day prior to the date of pay in.  |
| Structured Payment Mechanism  | The Issuer would, starting from the 1st day of each quarterly servicing cycle, remit on every working day an amount equivalent to 2.00% of the aggregate servicing requirement for such quarterly servicing cycle of outstanding bonds issued to KFC Bond Servicing Account Series II 2023. Shortfall of transfer (if any) on any particular day would get cumulative and be carried forward to the next day(s) on a rolling basis. The transfers during a particular quarterly servicing cycle on the above  |



## Press Release

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|  | <p>mode should continue till the full build-up of the servicing requirement for that particular quarterly servicing cycle is achieved in the KFC Bond Servicing Account Series II 2023. 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 lien-marked to the debenture trustee as explained in transaction documents.</p> <p>The Debenture Trustee should independently monitor the adequacy of collection in the KFC BOND SERVICING ACCOUNT SERIES II 2023 on T-15th day and inform KFC through written communication, to fund the short-fall if any by T-10th day. This should also be intimated to the concerned Credit Rating agencies.</p> <p>In the event of such shortfall in KFC BOND SERVICING ACCOUNT SERIES II 2023 not getting fully bridged through payments by KFC by T-10th day, the Debenture Trustee would on T-9th day meet such shortfall by transferring funds from the KFC DSRA BOND SERIES II 2023 and make the necessary payments to the Bond Holders on the due date.</p> <p>However, the T-15th day notice to KFC to fund the shortfall would continue to remain active and if such funding is received subsequently, the same shall be transferred to KFC DSRA BOND SERIES II 2023 to make good the impairment.</p> <p>Further, If any overdues on account of past servicing from KFC DSRA BOND SERIES II 2023 continues to remain till T+30th day, then such overdue amount would be replenished by Cash Collateral available and a notice to issuer to replenish Cash Collateral within next 30 days i.e. T+60th day.</p> <p>In the event of the above not being adhered, the Debenture Trustee would give a final notice to the Issuer for the full replenishment of DSRA and Cash Collateral Permitted Investment within next 7 days. Failing which would lead to an Event of Default (EOD).</p> <p>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.</p> |
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## Press Release

**Key Terms for the NCD issue of Rs 250.00 Crores and green shoe option of INR 226.50 Crores - INE818F07153, INE818F07161, INE818F07179, INE818F07187, INE818F07195 for Rs 95.30 Crores each**

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| Instrument name   | SENIOR, SECURED, RATED, LISTED, REDEEMABLE, TAXABLE NON-CONVERTIBLE DEBENTURES.   |
| Issuer  | Kerala Financial Corporation  |
| Issue size  | Rs 250.00 Crores s and green shoe option of INR 226.50 Crores - INE818F07153, INE818F07161, INE818F07179, INE818F07187, INE818F07195 for Rs 95.30 Crores each   |
| Issue date  | 24/03/2023  |
| Maturity date   | 30/03/2029, 29/03/2030, 31/03/2031, 31/03/2032 and 24/03/2033 respectively  |
| Coupon (Fixed)  | 8.90%   |
| Coupon payment frequency  | Quarterly   |
| Objects of the issue  | Working capital requirements  |
| Redemption structure  | Each series would be redeemed in 4 equal instalments of 5% of the aggregate issue size, with redemption of Series A starting from the end of 21 <sup>st</sup> quarter, Series B starting from end of 25 <sup>th</sup> quarter and so on.  |
| Conditions for breach of covenants (as specified in Debenture Trust Deed) | Breach of any covenants other than those in respect of payment default and maintenance of security cover would have a cure period of 30 days beyond which it would be construed as an event of default (EOD)  |
| Cash Collateral   | The Issuer shall, prior to the Pay-in Date, create permitted investments in terms of the Transaction Documents ("Cash Collateral Permitted Investments") for an amount equivalent to 10% (Ten percent) of the outstanding principal amount of the Debentures ("Cash Collateral Amount"). The Issuer hereby agrees and undertakes that the Issuer shall, at all times maintain an amount equivalent to the Cash Collateral Amount as permitted investments in terms of the Transaction Documents and the same shall always be lien marked to the debenture trustee as detailed in the Transaction Documents. In case of any erosion in Debt Service Reserve Account as mentioned under structured payment mechanism not getting cured within 30 days after servicing (i.e T+30), the erosion shall be made good by transferring necessary amount of funds / investments to the DSRA. The Debenture Trustee should immediately inform the issuer about this event with an advise to Replenish the Cash Collateral Permitted Investment within the next 30 days (T+60) |
| Debt Service Reserve Account (DSRA)                                       | The Issuer would be required to open a designated escrow account - "KFC DSRA Account Series I 2023" exclusively for the benefit and charged to the Debenture Trustee (on behalf of  |



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|                              | <p>the bondholders). In case of further series of issuances, the Issuer shall open similar accounts (Series II, Series III, etc.) An amount equivalent to the total servicing obligation (Principal &amp; Interest) of the outstanding bonds for the next 2 quarters would need to be maintained by the Issuer in the DSRA account on rolling basis and the initial DSRA amount so calculated would need to be deposited atleast one day prior to the date of pay in. Prior to commencement of principal redemption (from the end of 21st and 22nd quarter), the DSRA would need to be suitably augmented within 15 days after the expiry of the 19th and 20th quarter to take care of this enhanced servicing liability.</p>   |
| Structured Payment Mechanism | <p>The Issuer would, starting from the 1st day of each quarterly servicing cycle, remit on every working day an amount equivalent to 2.00% of the aggregate servicing requirement for such quarterly servicing cycle of outstanding bonds issued to KFC Bond Servicing Account Series I 2023. Shortfall of transfer (if any) on any particular day would get cumulative and be carried forward to the next day(s) on a rolling basis. The transfers during a particular quarterly servicing cycle on the above mode should continue till the full build-up of the servicing requirement for that particular quarterly servicing cycle is achieved in the KFC Bond Servicing Account Series I 2023. 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 lien-marked to the debenture trustee as explained in transaction documents.</p> <p>The Debenture Trustee should independently monitor the adequacy of collection in the KFC BOND SERVICING ACCOUNT SERIES I 2023 on T-15th day and inform KFC through written communication, to fund the short-fall if any by T-10th day. This should also be intimated to the concerned Credit Rating agencies.</p> <p>In the event of such shortfall in KFC BOND SERVICING ACCOUNT SERIES I 2023 not getting fully bridged through payments by KFC by T-10th day, the Debenture Trustee would on T-9th day meet such shortfall by transferring funds from the KFC DSRA BOND SERIES I 2023 and make the necessary payments to the Bond Holders on the due date.</p> <p>However, the T-15th day notice to KFC to fund the shortfall would continue to remain active and if such funding is received subsequently, the same shall be transferred to KFC DSRA BOND SERIES I 2023 to make good the impairment.</p> |





## Press Release

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|  | <p>Further, If any overdue on account of past servicing from KFC DSRA BOND SERIES II 2023 continues to remain till T+30th day, then such overdue amount would be replenished by Cash Collateral available and a notice to issuer to replenish Cash Collateral within next 30 days i.e. T+60th day.</p> <p>In the event of the above not being adhered, the Debenture Trustee would give a final notice to the Issuer for the full replenishment of DSRA and Cash Collateral Permitted Investment within next 7 days. Failing which would lead to an Event of Default (EOD).</p> <p>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.</p> |
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### Draft Term Sheet for Proposed Rs. 1000.00 Cr NCDs.

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| Instrument               | SECURED, RATED, LISTED, REDEEMABLE, TAXABLE NON-CONVERTIBLE DEBENTURES / BONDS  |
| Issuer                   | Kerala Financial Corporation  |
| Issue Size               | Rs 1000.00 Crore  |
| Nature of Instrument     | Secured   |
| Coupon rate (Fixed)      | TBD   |
| Coupon payment frequency | TBD   |
| Tenor                    | Series A to E (Each for Rs 200 Crores), for tenor of 6 years to 10 years, with quarterly redemption in each series, with 1 <sup>st</sup> redemption scheduled at 21 <sup>st</sup> quarter.  |
| Redemption structure     | Each series would be redeemed in 4 equal instalments of 5% of the aggregate issue size, with redemption of Series A starting from the end of 21 <sup>st</sup> quarter, Series B starting from end of 25 <sup>th</sup> quarter and so on.  |
| Objects of the issue     | Working capital requirements  |
| Security                 | <p>The bonds would be secured by way off:</p> <ol style="list-style-type: none"><li>1. Exclusive charge on the KFC Bond Servicing Account series III 2023 and on the amount transferred therein to be utilised only for servicing of the bonds on quarterly servicing dates</li><li>2. Exclusive charge on the KFC DSRA Bond Series III 2023 and funds lying therein.</li><li>3. Exclusive charge on Cash collateral always permitted investment available equivalent to 10% of face value of principal amount outstanding.</li></ol> |





## Press Release

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| KFC Bond Servicing account | The issuer would be required to open a designated escrow account – “KFC Bond Servicing Account series III 2023” exclusively charged to Debenture trustee.  |
| Key Covenants              | <p>The Issuer would be required to open a designated escrow account "KFC DSRA Account Series III 2023" exclusively for the benefit and charged to the Debenture Trustee (on) behalf of the bondholders). In case of further series of issuances, the Issuer shall open similar accounts (Series IV. Series V, etc.)</p> <p>An amount equivalent to the total servicing obligation (Principal &amp; Interest) of the outstanding bonds for the next 2 quarters would need to be maintained by the Issuer in the DSRA account on rolling basis and the initial DSRA amount so calculated would need to be deposited atleast one day prior to the date of pay in.</p> <p>The issuer shall, prior to the pay-in-date, create permitted investments in terms of the transaction documents for an amount equivalent to 10% of the outstanding principal amount of the debentures.</p> <p>In case of any erosion in Debt Service Reserve Account as mentioned under structured payment mechanism not getting cured within 30 days after servicing (i.e T+30), the erosion shall be made good by transferring necessary amount of funds / investments to the DSRA.</p> <p>The Debenture Trustee should immediately inform the issuer about this event with an advise to Replenish the Cash Collateral Permitted Investment within the next 30 days (T+60).</p> |
| Cash Collateral            | <p>The Issuer shall, prior to the Pay-in Date, create permitted investments in terms of the Transaction Documents (“Cash Collateral Permitted Investments”) for an amount equivalent to 10% (Ten percent) of the outstanding principal amount of the Debentures (“Cash Collateral Amount”). The Issuer hereby agrees and undertakes that the Issuer shall, at all times maintain an amount equivalent to the Cash Collateral Amount as permitted investments in terms of the Transaction Documents and the same shall always be lien marked to the debenture trustee as detailed in the Transaction Documents. In case of any erosion in Debt Service Reserve Account as mentioned under structured payment mechanism not getting cured within 30 days after servicing (i.e T+30), the erosion shall be made good by transferring necessary amount of funds / investments to the DSRA. The Debenture Trustee should immediately inform the issuer about this event with an advise to Replenish the</p>   |



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|                                     | Cash Collateral Permitted Investment within the next 30 days (T+60)   |
| Debt Service Reserve Account (DSRA) | <p>The Issuer would be required to open a designated escrow account - "KFC DSRA Account Series III 2023" exclusively for the benefit and charged to the Debenture Trustee (on behalf of the bondholders). In case of further series of issuances, the Issuer shall open similar accounts (Series III, Series IV, etc.)</p> <p>An amount equivalent to the total servicing obligation (Principal &amp; Interest) of the outstanding bonds for the next 2 quarters would need to be maintained by the Issuer in the DSRA account on rolling basis and the initial DSRA amount so calculated would need to be deposited atleast one day prior to the date of pay in.</p>   |
| Structured Payment Mechanism        | <p>The Issuer would, starting from the 1st day of each quarterly servicing cycle, remit on every working day an amount equivalent to 2.00% of the aggregate servicing requirement for such quarterly servicing cycle of outstanding bonds issued to KFC Bond Servicing Account Series III 2023. Shortfall of transfer (if any) on any particular day would get cumulative and be carried forward to the next day(s) on a rolling basis. The transfers during a particular quarterly servicing cycle on the above</p> <p>mode should continue till the full build-up of the servicing requirement for that particular quarterly servicing cycle is achieved in the KFC Bond Servicing Account Series III 2023. 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 lien-marked to the debenture trustee as explained in transaction documents.</p> <p>The Debenture Trustee should independently monitor the adequacy of collection in the KFC BOND SERVICING ACCOUNT SERIES III 2023 on T-15th day and inform KFC through written communication, to fund the short-fall if any by T-10th day. This should also be intimated to the concerned Credit Rating agencies.</p> <p>In the event of such shortfall in KFC BOND SERVICING ACCOUNT SERIES III 2023 not getting fully bridged through payments by KFC by T-10th day, the Debenture Trustee would on T-9th day meet such shortfall by transferring funds from the KFC DSRA BOND SERIES III 2023 and make the necessary payments to the Bond Holders on the due date.</p> <p>However, the T-15th day notice to KFC to fund the shortfall would continue to remain active and if such funding is</p> |



## Press Release

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|  | <p>received subsequently, the same shall be transferred to KFC DSRA BOND SERIES II 2023 to make good the impairment.</p> <p>Further, If any overdues on account of past servicing from KFC DSRA BOND SERIES III 2023 continues to remain till T+30th day, then such overdue amount would be replenished by Cash Collateral available and a notice to issuer to replenish Cash Collateral within next 30 days i.e. T+60th day.</p> <p>In the event of the above not being adhered, the Debenture Trustee would give a final notice to the Issuer for the full replenishment of DSRA and Cash Collateral Permitted Investment within next 7 days. Failing which would lead to an Event of Default (EOD).</p> |
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**Annexure 4: List of companies considered for consolidated analysis:** Not Applicable

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).