



Press Release

Kerala Financial Corporation (KFC)

February 21, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Non-Convertible Debentures	50.00	IVR AA/ Stable (IVR Double A with Stable Outlook)	Assigned	Simple
Non-Convertible Debentures	594.00	IVR AA/ Stable (IVR Double A with Stable Outlook)	Assigned	Simple
Proposed Non- Convertible Debentures	750.00	IVR AA/ Stable (IVR Double A with Stable Outlook)	Assigned	Simple
Total	1394.00 (Rupees One Thousand Three Hundred Ninety-Four Crores only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The assignment of ratings to the Non-Convertible Debentures (NCDs) of Kerala Financial Corporation (KFC or the “Corporation”) has taken into consideration, 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.

Key Rating Sensitivities:

Upward Factors



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- 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.
- 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 (GoK) holds majority shareholding of 98.54%, followed by Small Industries Development Bank of India (SIDBI) at 1.44%, and Life Insurance Corporation (LIC) and State Bank of India (SBI) at 0.017% and 0.005%, respectively. By virtue of the ownership of GoK and as 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. The role of KFC in the overall growth of the state, implementation of its schemes/policies of the state government and achieving the socio-economic objectives becomes very important and hence GOK is morally obliged to provide financial support required by KFC. The corporation receives regular financial support from the state government in the form of budgetary allocations and subsidies.

Given the financial and operational synergies support between GoK and KFC, the credit profile of GoK and the overall fiscal health of the GoK is crucial to the growth of the corporation.



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Comfortable Capitalisation

The corporation is comfortably capitalised with total CRAR of 22.41% as against the minimum regulatory requirement of 15%. The same has further improved to 23.13% as on 31 Dec 2022. The corporation has a tangible network of Rs 691 Crores as on 31 March 2022.

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 from Rs 724.00 Crores in FY18 to Rs 2877.00 Crores in FY22. Disbursement have also increased from Rs 600.00 Crores in FY18 to Rs 2175.00 Crores in FY22. The loan portfolio of the corporation has increased from Rs 2452.00 Crores in FY18 to Rs 4751.00 Crores in FY22. Further, it has grown to Rs 6324.55 Crores in 9MFY23.

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 of Rs 594.00 Crores raised by the corporation 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 20% 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 outstanding NCDs of Rs 50.00 Crores, the Government of Kerala has provided unconditional and irrevocable guarantee for timely payment of principal and interest and



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presence of structured payment mechanism wherein, thirty days (T-30) before the forthcoming due date 'T', KFC shall credit the requisite funds in the Trust and Retention Account ("TRA") for servicing the bondholders or put them in a Fixed Deposit with any scheduled bank and ensure that the lien of the Trustees is noted by the Bank. In case the TRA Account is not funded or put in FD with any scheduled bank by KFC to the requisite extent at least 25 days (T-25) before the due date for payment of interest / principal, the Trustee shall forthwith invoke the guarantee of Govt of Kerala. Govt of Kerala shall, at least 5 (T-5) days before the due date, deposit / transfer the principal / interest amount in the TRA.

For the proposed NCDs of Rs 750 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-9th day shall be met through transfer of requisite funds from the DSRA.

Key Rating Weaknesses

Moderate financial profile of Government of Kerala

The Gross State Domestic Product (GSDP) of the state for 2022-23 (at current prices) is projected to be Rs 9,99,643 crore. This is a growth of 10.8% over the revised estimate of GSDP for 2021-22 (Rs 9,01,998 crore). In 2021-22, GSDP is estimated to grow at 12% over the previous year (at current prices). Fiscal deficit for 2022-23 is targeted at Rs 39,117 crore (3.91% of GSDP). In 2021-22, as per the revised estimates, fiscal deficit is expected to be 4.17% of GSDP, higher than the budget estimate of 3.50% of GSDP. Revenue deficit for 2022-23 is estimated to be Rs 22,968 crore, which is 2.30% of the GSDP. In 2021-22, the state is estimated to observe a revenue deficit of 2.57% of GSDP, as compared to a revenue deficit of 1.93% of GSDP estimated at the budget stage.



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Average, albeit improving asset quality

Given the socio-economic objective of the corporation, where it provides financial assistance to MSME sector, majorly 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 3.27% and 1.28% respectively in FY22 from 3.58% and 1.48% respectively in FY21. However, the company has maintained comfortable levels of provision coverage ratio of ~60%. 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 9MFY23, the asset quality moderated with GNPA and NNPA increasing to 4.58% and 2.44% 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 158.00 Crores for FY22 and Rs 140 Crores in FY21), the profitability remains low with ROTA of 0.26%, RONW of 1.79% and PAT margin of 2.55% for FY22. Also, since the majority of the loan portfolio growth is funded by external debt and hence the gearing of the corporation remains high at 6.24x in FY22. 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:

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

[Criteria of assigning rating outlook](#)

[Criteria for Government support](#)



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Liquidity –Adequate

The company is adequately capitalized with a total CAR (%) of 23.31% as on 31 December 2022, and Networth of Rs 790.71 Crores. Also, it has adequately matched asset liability profile as on 30 Sep 2022. The company has cash and bank balances of Rs 240.00 Crores and unutilised bank limits of Rs 40.00 Crores as on 30 Sep 2022.

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 16 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, Bank of India and State Bank of India (erstwhile State bank of Travancore). The Government of Kerala holds 98.54% 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	31-03-2021	31-03-2022
	Audited	Audited
Total Income	490.94	518.17
PAT	6.58	13.20
Tangible Net Worth	678.49	690.58
Total Debt	4,269.17	4,308.87
Total Loan Assets	4,621.12	4,750.72
ROTA (%)	0.15	0.26
Total CAR (%)	22.85	22.41
Gross NPA (%)	3.58	3.27
Net NPA (%)	1.48	1.28
Overall Gearing (Times)	6.29	6.24

*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 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	NCDs	Long Term	50.00	IVR AA/Stable	-	-	-
2.	NCDs	Long Term	594.00	IVR AA/Stable	-	-	-
3.	Proposed NCDs	Long Term	750.00	IVR AA/Stable	-	-	-

Name and Contact Details of the Rating Analyst:

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength 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/ Instrument	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
NCDs	INE818F08029	9 Aug 2019	8.72%	9 aug 2029	50.00	IVR AA/Stable
NCDs	INE818F07013	9 June 2016	8.90%	9 May 2023	62.50	IVR AA/Stable



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NCDs	INE818F07039	4 April 2018	8.69%	4 April 2023	16.30	IVR AA/Stable
NCDs	INE818F07047	4 April 2018	8.69%	4 April 2024	10.45	IVR AA/Stable
NCDs	INE818F07054	4 April 2018	8.69%	4 April 2025	4.75	IVR AA/Stable
NCDs	INE818F07096	9 July 2019	8.99%	9 July 2023	62.50	IVR AA/Stable
NCDs	INE818F07070	9 July 2019	8.99%	9 July 2024	62.50	IVR AA/Stable
NCDs	INE818F07062	9 July 2019	8.99%	9 July 2025	62.50	IVR AA/Stable
NCDs	INE818F07088	9 July 2019	8.99%	9 July 2026	62.50	IVR AA/Stable
NCDs	INE818F07104	14 Sep 2020	7.70%	14 Sep 2026	50.00	IVR AA/Stable
NCDs	INE818F07112	14 Sep 2020	7.70%	14 Sep 2027	50.00	IVR AA/Stable
NCDs	INE818F07120	14 Sep 2020	7.70%	14 Sep 2028	50.00	IVR AA/Stable
NCDs	INE818F07138	14 Sep 2020	7.70%	14 Sep 2029	50.00	IVR AA/Stable
NCDs	INE818F07146	14 Sep 2020	7.70%	14 Sep 2030	50.00	IVR AA/Stable
Proposed NCDs	-	-	-	-	750.00	IVR AA/Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details – Not applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:



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Key Terms for the NCD issue of Rs 50.00 Crores - (INE818F08029)

Instrument name	8.72% UNSECURED NON-CONVERTIBLE NON SLR BONDS SERIES 1/2013
Issuer	Kerala Financial Corporation
Issue size	Rs 50.00 Crores
Issue date	06/06/2013
Maturity date	06/06/2023
Coupon (Fixed)	8.72%
Coupon payment frequency	Half yearly
Objects of the issue	Working capital requirements
Guarantee	Government of Kerala has provided guarantee for timely payment of coupon and principal amount
Key Covenants	<p>As per the terms of the issuances, KFC will, thirty days (T-30) before the forthcoming due date 'T', credit the requisite funds in the Trust and Retention Account ("TRA") for servicing the bondholders or put them in a Fixed Deposit with any scheduled bank and ensure that the lien of the Trustees is noted by the Bank. KFC shall ensure that the Govt of Kerala and the trustees are informed about the clear funds in the TRA / opening of Fixed Deposit.</p> <p>In case of Fixed Deposit, at least 1 working day prior to the due date (T-1), KFC shall, with due intimation to the Trustees, ensure that proceeds from maturity of FDs are transferred to the TRA for payment to the Bondholders on due date (T).</p> <p>In case the TRA Account is not funded or put in FD with any scheduled bank by KFC to the requisite extent at least 25 days (T-25) before the due date for payment of interest / principal, the Trustee shall forthwith invoke the guarantee of Govt of Kerala.</p> <p>Govt of Kerala shall, at least 5 (T-5) days before the due date, deposit / transfer the principal / interest amount in the TRA.</p>

Key Terms for the NCD issue of Rs 62.50 Crores - INE818F07013

Instrument name	8.90% SECURED REDEEMABLE NON-CONVERTIBLE BONDS. SERIES 1/2016
Issuer	Kerala Financial Corporation
Issue size	Rs 62.50 Crores
Issue date	9/06/2016
Maturity date	9/05/2023
Coupon (Fixed)	8.90%
Coupon payment	Half yearly



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frequency	
Objects of the issue	Working capital requirements
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 31.50 Crores - INE818F07039 for Rs 16.30 Crores, INE818F07047 for Rs 10.45 Crores and INE818F07054 for Rs 4.75 Crores

Instrument name	8.69% SECURED REDEEMABLE NON-CONVERTIBLE BONDS.
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	Half yearly



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frequency	
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 st quarter, Series B starting from end of 25 th 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 250.00 Crores - INE818F07096, INE818F07070, INE818F07062 and INE818F07088 for Rs 62.50 Crores each

Instrument name	8.99% SECURED REDEEMABLE NON-CONVERTIBLE BONDS.
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



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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 st quarter, Series B starting from end of 25 th 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 250.00 Crores - INE818F07104, INE818F07112, INE818F07120, INE818F07138, INE818F07146 for Rs 50.00 Crores each

Instrument name	7.70% SECURED REDEEMABLE NON-CONVERTIBLE BONDS.
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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 starting from the end of 21 st quarter, Series B starting from end of 25 th 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>



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Draft term sheet for the proposed NCDs of Rs 750.00 Crores

Instrument	Kerala Financial Corporation Bonds Series I 2023
Issuer	Kerala Financial Corporation
Issue Size	Rs 250 Crore with green shoe option of Rs 500 Crores aggregating to Rs 750 Crores
Nature of Instrument	Secured
Coupon rate (Fixed)	TBD
Coupon payment frequency	TBD
Tenor	Series A to E (Each for Rs 50 Crores), for tenor of 6 years to 10 years, with quarterly redemption in each series, with 1 st redemption scheduled at 21 st 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 st quarter, Series B starting from end of 25 th quarter and so on.
Objects of the issue	Working capital requirements
Security	The bonds would be secured by way off: <ol style="list-style-type: none">1. Exclusive charge on the KFC Bond Servicing Account series I 2023 and on the amount transferred therein to be utilised only for servicing of the bonds on quarterly servicing dates2. Exclusive charge on the KFC DSRA Bond Series I 2023 and funds lying therein.3. Exclusive charge on Cash collateral permitted investment available equivalent to 10% of face value of principal amount outstanding at all times4. Exclusive charge on specific current assets including book debts and receivables of the company from identified borrowers. The book value of such assets would provide 100% security cover on the outstanding bonds throughout its entire tenure.
DSRA	The issuer would be required to open a designated escrow account – “KFC DSRA Bond Series I 2023” exclusively charged to Debenture trustee. An amount equivalent to the total servicing obligation (Principal + Interest) for an amount equivalent to next 2 quarters needs to be maintained at all times in the form of cash and cash equivalents. Any erosion of funds in the DSRA accounts to be replenished with in T+30 days
KFC Bond Servicing account	The issuer would be required to open a designated escrow account – “KFC Bond Servicing Account series I 2023” exclusively charged to Debenture trustee.
Cash Collateral	The issuer shall, prior to the pay-in-date, create permitted



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	investments in terms of the transaction documents for an amount equivalent to 10% of the outstanding principal amount of the debentures
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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.

