



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Kanak Instalments Ltd.

November 2, 2018

Rating

Instrument / Facility	Amount	Rating	Rating Action
Long Term Fund-Based Facility (Proposed)	Rs.5.00 crores	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned

Details of Facility are in Annexure 1

Detailed Rationale

The rating derives comfort from the experience of promoters, adequate asset quality and comfortable capital structure of the company. The rating is constrained by small scale of operations, low profitability, fall in the loan book size, geographical and asset concentration risk, weak resource profile, weak management systems and competitive nature of financing industry. Growth in operations, improvement in profitability and capitalisation levels are the key rating sensitivities.

List of Key Rating Drivers

- Experienced promoter
- Adequate Asset Quality Parameters
- Comfortable capital structure
- Small scale of operations
- Fall in loan book size
- Low profitability
- Concentration risk
- Weak resource profile
- Weak management systems
- Competitive nature of industry



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Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter

The promoters of the company are Mr. Davendra Kumar Jindal and Mr. Alok Bansal with an experience of close to 3 decades. Mr. Jindal also serves as a Director on the Board of Finance Industry Development Council (FIDC) which is an industry body for small NBFCs. The Board of Directors of the company has remained mostly unchanged since its inception in the year 1989. The promoters have rich experience in vehicle financing business and have been able to establish a firm base in Meerut.

Comfortable capital structure

The net worth of KIL stood at Rs.2.58 crore as on March 31, 2018 as against total loan assets of Rs.3.86 crore implying comfortable capitalisation levels. The total debt of the company was also moderate at Rs.1.86 crore as on March 31, 2018, resulting in comfortable gearing ratio of 0.72 times as on March 31, 2018.

Adequate Asset Quality Parameters

The 180+ dpd of the company was moderate at Rs.7.35 lakhs as on March 31, 2017 (1.57% of the loan portfolio as on March 31, 2017), which was reduced to nil as on March 31, 2018. The company has been able to maintain low delinquency levels in the lending portfolio.

Key Rating Weaknesses

Small scale of operations

KIL has been in the asset financing business since 1989. Though, the company has been operating for close to 3 decades, the loan book size of the company is small. The company finances used vehicle loans for buses and trucks with typical tenor of three to four years.

Fall in loan book size

KIL faced headwinds in FY18 in the form of implementation of GST which made its operations unviable under the hire purchase route due to the 28% tax on income from hire purchase. Hence, the company shifted to loans under hypothecation since FY18. The outstanding loan book as on March 31, 2018 was Rs.3.86 crore having shrunk from Rs.4.68 crore as on March 31, 2017.



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Low profitability

Total income of the company declined from Rs. 0.67 crore in FY17 to Rs. 0.58 crore in FY18 as the company was forced to shift from Hire Purchase model to hypothecation based loans in FY18, leading to disruption in the growth of the business. The company has reported PAT of Rs.1.78 lakhs for FY18 as against PAT of Rs.1.92 lakhs for FY17. ROTA was low at 0.37% in FY18 (FY17: 0.34%).

Concentration risk

The entire portfolio of the company is concentrated towards the used vehicle financing. Further, Tata vehicles account for around 70-80% of the portfolio. The company operates only in Meerut, Sahibabad (near New Delhi) and Rishikesh regions, indicating geographical concentration risk as well.

Weak resource profile

The company does not have any borrowings on its books apart from deposits taken from the public and from the Directors of the company. As on March 31, 2018, the company had only Rs.7.2 lakhs of deposits from the public which have also been repaid in full by June 30, 2018 as confirmed by the company officials. The company currently does not have any borrowings from banks and is in the process of approaching bankers to obtain a CC facility of Rs.5 crore to support growth in operations

Weak management systems

The company maintains its accounts on Tally software and all the management reports are prepared manually from data dumps taken from Tally software and using MS Office applications. Also, since the company is not a systemically important NBFC, the company does not prepare Capital Adequacy or Asset Liability Management statements.

Competitive nature of industry

KIL is exposed to stiff competition from other NBFCs and banks. The commercial vehicle financing industry is highly competitive with even large players vying for the same set of borrowers.



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Analytical Approach & Applicable Criteria

Rating Methodology for Financial Institutions/NBFCs

Financial Ratios & Interpretation (Financial Sector)

Criteria on Default Recognition and Post-Default Curing Period

About the Company

Kanak Instalments Limited (KIL) was incorporated in August 1989 as a private limited company and later became a public limited company in February 2002. In 2002, KIL was registered as an Asset Finance Company (AFC) with RBI and received the approval from RBI to accept deposits in July 2008. The company is engaged in the business of asset financing, specifically buses and trucks. The company shifted to providing loans under hypothecation since FY18 post implementation of GST as it became unviable to continue with the Hire Purchase route. KIL extends financing primarily to individual Truck / Bus operators who ply them for their own transportation business. The total outstanding portfolio as on March 31, 2018 stood at Rs.3.86 crore.

Financials (Consolidated)

(Rs. Crore)

For the year ended / Rs. Crs	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	0.67	0.58
Interest	0.32	0.28
PAT	0.02	0.02
Tangible Net Worth	2.49	2.58
<u>Ratios</u>		
a. PAT Margin	2.82	3.30
b. Overall Gearing ratio	0.86	0.72

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil



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Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Fund-Based Facility - Cash Credit (Proposed)	Long Term	5.00	IVR BB-(IVR Double B Minus)	--	--	--

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility(Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund-Based Facility - Cash Credit (Proposed)	-	-	-	5.00	IVR BB- (IVR Double B Minus)