CARE Ratings
Professional Risk Opinion

CARE/CRO/RR/2018-19/1165

Mr. Mathew K Cherian
Managing Director
Kosamattam Finance Limited
Kosamattam M.K.C Building
Market Junction, M.L. Road
Kottayam, Kerala - 686001

December 31, 2018

Dear Sir,

Credit rating of debt instruments

Please refer to our letters dated December 31, 2018 on the above subject.

2. The rationale for the rating is attached as an **Annexure-I**.

3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 02, 2019 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

R. Ravishankar

Ravi Shankar R
Manager

Encl.: As above

Annexure-I
Rating Rationale
Kosamattam Finance Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Non-Convertible debenture Issue – I	11.09	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Non-Convertible debenture Issue – II	13.26	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Non-Convertible debenture Issue – IV	19.51	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Non-Convertible debenture Issue – V	38.94	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Non-Convertible debenture Issue – VI	170.93	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Non-Convertible debenture Issue – VII	154.28	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Non-Convertible debenture Issue – VIII	117.48	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Sub-ordinated debt – I	25.00	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Sub-ordinated debt - II	10.00	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Sub-ordinated debt – III	30.00	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Sub-ordinated debt	24.79	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Total Instruments	**615.28 (Rupees Six hundred fifteen crore and twenty eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to various debt instruments of Kosamattam Finance Limited (KFL) factors in improvement in the scale of operations and profitability in the past three years ended March 31, 2018 supported by regular infusion of capital. The rating continues to factor in the long track record of operations, good asset quality, adequate liquidity position and established risk managements systems.

The rating is constrained by moderate capital adequacy levels, geographical concentration of loan portfolio, product concentration on a single asset class with exposure to market risk related to gold and significant investment in fixed assets.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Going forward, the ability of the company to maintain comfortable asset quality, improve profitability and capital adequacy levels while increasing the scale of operations and any change in the regulatory scenario are the key rating sensitivities.

Detailed description of the key rating drivers

Strong experience of the promoters

Kosamattam group entered into gold loan business in 1980 under Mr. Mathew Cherian. With the experience gained from this venture, the group took over an already established NBFC in 2004 and changed its name to KFL. Under Mr. Mathew Cherian and his son in law Mr. George Thomas, the company has expanded its network across south India and operates out of 948 branches as on March 31, 2018

Evolving risk management systems.

KFL has put in place the adequate credit-appraisal systems. The branch employees have been trained to appraise quality of the gold jewellery provided as security against loan by prospective borrowers which is subsequently verified by the gold appraiser. The company has implemented systems for ensuring the gold security and reducing the custodial risks, including highly secured vaults with dual control and insurance. The internal audit is conducted across the branches covering the disbursements, adherence to process, collection, gold stock etc., and Gold Audit is conducted to verify the weight and purity of the gold. Surprise audit and cash verification is also done in all the branches

RBI, during its review has advised KFL to improve few of its operational practices and compliance. KFL has been implementing the changes suggested by the regulator and adherence to compliance will remain a key sensitivity.

Comfortable asset quality

GNPA and NNPA were at 0.98% and 0.59% as on March 31, 2018 as against GNPA and NNPA of at 0.57% and 0.26% as on March 31, 2017. In order to maintain the NPA at comfortable levels and improve interest collection, the company has reduced the maximum tenure of the loans to 9 months. In case of non-recoverability of interest from the customers, the auction process would be initiated from the end of 9th month in order to minimize the interest and principal loss from auction. Hence, the gold price risk is mitigated to certain extent. With the phasing of the stressed portfolio and with the adequate collateral coverage for the portfolio disbursed with shorter tenure, the profitability is expected to improve going forward. GNPA and NNPA as on September 30, 2018 stood at 1.02% and 0.55% respectively.

The principal/interest loss on the portfolio auction during FY18 and H1FY19 stood at Rs.35 crore and Rs.6 crore respectively.

Improvement in profitability with increase in scale of operations

KFL disbursed gold loans of Rs. 4,747 crore during FY18 as against Rs. 3,933 crore in FY17. During FY18, the loan portfolio witnessed growth of 17% from Rs. 1,922 crore as on March 31, 2017 to Rs. 2,239 crore as on March 31, 2018. Yield has slightly declined from 19.36% in FY17 to 19.11% in FY18 as company started offering lower interest rates for the monthly interest paying product in view of the competition, whereas cost of funds stood at 12.77% in FY18 as against 12.72% in FY17. NIM improved to 6.38% in FY18 from 6.04% in FY17.

Over the past few years the company has been closing the non-profitable branches especially in Kerala and opening branches in newer geographies. As the result, the portfolio per branch for gold loan has shown improvement from Rs.1.34 crore as on March 31, 2015 to Rs.2.46 crore as on March 31, 2018. With increase in portfolio per branch, operating expenses to average assets decreased from 4.74% in FY17 to 4.47% in FY18. With improvement in NIM, decline in operating expenses and stable credit costs, ROTA improved to 1.20% in FY18 from 0.70% in FY17.

As on September 30, 2018, loan portfolio stood at Rs. 2,311 crore. During H1FY19, KFL reported a PAT of Rs.11 crore on a total income of Rs.220 crore.

Geographical concentration

The loan portfolio is concentrated towards South India. As on March 31, 2018, Tamilnadu constituted around 49% (PY: 52%) of the total loan portfolio, followed by Kerala with 28% (PY: 30%), Karnataka with 12% (PY: 11%) and other states with 11% (PY: 6%).

The company has been making consistent efforts to increase the loan portfolio by way of expanding the branch network and addition of new branches in the other geographies. However, the portfolio is expected to remain concentrated in South India.

Product Concentration

The company earns a major portion of income from lending against Gold. Gold constituted around 91.57% of the total AUM as on March 31, 2018 as against 90.3% as on March 31, 2017. LAP and Microfinance constituted around 7.78% and 0.57% of the portfolio as on March 31, 2018. The proportion of gold loans to the total loan portfolio expected to remain higher in the medium term.

Exposure to real estate sector

KFL has made significant investments in land during FY15 and FY16 amounting to Rs.41 crore from related parties. These assets remain in the books of KFL and no further major investment was made post FY16. The proportion of fixed assets to networth decreased from 52% as on March 31, 2015 to 36% as on March 31, 2018.

Average borrowing profile

The resource profile is concentrated towards NCDs and Sub Debt which constitutes around 77% as on March 31, 2018 as against 87% as on March 31, 2017. Share of bank borrowings has increased from 13% as on March 31, 2017 to 23% as on March 31, 2018.

Moderate Capitalization levels; however continuous infusion of capital by promoters to support the growth

During FY18 and H1FY19, the company raised capital to the tune of Rs.30 crore and Rs.5 crore respectively via rights issue. To support the growth, promoters have been infusing capital (Rs.23 crore in FY15, Rs.21 crore in FY16, Rs.28 crore in FY17) on need basis.

CAR and Tier I CAR as on March 31, 2018 stood at 17.12% and 12.82% as against 16.68% and 12.22% as on March 31, 2017. CAR and Tier 1 CAR as on September 30, 2018 stood at 17.60% and 12.82%. Timely infusion of capital to maintain CAR levels above regulatory level amidst the growing portfolio is a key rating sensitivity.

Comfortable Liquidity position

ALM profile as on September 30, 2018 is at comfortable level with no cumulative negative mismatch in any of the time brackets. ALM is comfortable mainly on account of shorter tenor of loans provided by KFL with access to longer tenure borrowings.

Intense competition in the gold loan business

Geographically, the gold loan financing industry is predominantly placed in the southern India with an active interest of both the South India-based banks and the large NBFCs operating out of this region. While the companies are gradually increasing their operations in the other parts of India, southern India is expected to remain as the primary market for gold loans and the competition continues to be intense.

Prospects

The gold loan industry has undergone various regulatory changes during FY13-14. These changes & guidelines in addition to downtrend in market prices of gold have impacted the growth, asset quality and profitability of the gold loan NBFCs in the two fiscal years ended March 2014. After this period, gold loan NBFCs have witnessed some stability in terms of AUM and profitability in FY15 and FY16. Post demonetization, there was a slowdown in disbursement. However, the disbursement again started picking up in H2FY18.

Going forward, ability of KFL to maintain its asset quality, improve profitability and capital adequacy levels while increasing the scale of operations, maintain regulatory compliance and any change in the regulatory scenario would be the key rating sensitivities.

Analytical approach:

Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios-Financial Sector
CARE's Rating Methodology for Non-Banking Finance Companies (NBFCs)

About the Company

Kosamattam Finance Limited (KFL), a non-deposit taking NBFC registered with RBI is part of Kosamattam group. The group was founded by Mr. Chacko Varkey in 1927, with the main activity being chit fund business. In 1980, the group ventured into gold loan business under Mr. Mathew Cherian (grandson of Mr. Chacko). In 2004, the group acquired an already established gold loan NBFC in Kerala called 'Standard Shares and Loans Pvt. Ltd.' and changed its name to Kosamattam Finance Private Limited.

As on March 31, 2018, the company had a loan portfolio of Rs. 2,239 crore with an average ticket size of around Rs. 31,500 (Gold Loans) and lends at interest rates ranging between 12-24%. The company offers loan against used jewellery/ gold ornaments and it constitutes around 92% of AUM as on March 31, 2018 and has its branches in 8 states and 1 union territory. Apart from Gold loans, the company has presence in loan against property and has also ventured into microfinance during FY17. KFL is also an RBI authorized Money Changer and offers forex services like buying and selling foreign currency and remittance abroad through Swift & foreign currency Demand Drafts.

Financial Performance

(Rs. Cr)

As on / Year ended March 31	2016	2017	2018
	(12m, A)	(12m, A)	(12m, A)
Working Results			
Interest Income	341	349	426
Total Income	346	352	431
Interest Expenses	224	219	262
Net Interest Income	118	130	164
Operating Expenses	102	102	115
Total Provision / Write offs	2	4	5
PBT	18	26	49
PAT	11	16	31
Financial Position			
Tangible Net worth	222	264	321
Total Borrowings	1564	1882	2217
Total Loan Portfolio	1,472	1,922	2,239
Total Assets	1,939	2,350	2,789
Key Ratios (%)			
Solvency			
Overall Gearing (times)	7.67	7.83	7.56
Capital Adequacy Ratio (CAR) (%)	18.32	16.68	17.12
Tier I CAR (%)	12.67	12.22	12.82
Profitability			
Net Interest Margin (NIM)	6.09	6.04	6.38
Return on Total Assets (ROTA)	0.58	0.73	1.20
Operating expenses to Total Assets	5.28	4.74	4.47
Asset Quality			
Gross NPA Ratio (%)	0.45	0.57	0.98
Net NPA Ratio (%)	0.20	0.26	0.59

A - Audited

Note: Ratios have been computed based on average of annual opening and closing balances

NIM has been calculated as net interest income/ average annual total assets

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:

Name: Mr P. Sudhakar

Tel: 044-2450 1003

Email: p.sudhakar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is 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 CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	May 16, 2014	13.43%	November 16, 2019	11.09	CARE BBB-; Stable
Debentures-Non Convertible Debentures	August 13, 2014	12.62%	June 12, 2020	13.26	CARE BBB-; Stable
Debt-Subordinate Debt	November 08, 2014	13%-13.43%	May 07, 2020	25.00	CARE BBB-; Stable
Debt-Subordinate Debt	March 17, 2015	13%	January 16, 2021	10.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures	March 17, 2015	12.5%-12.62%	January 16, 2021	19.51	CARE BBB-; Stable
Debentures-Non Convertible Debentures	December 01, 2015	11%-11.25%	November 30, 2020	38.94	CARE BBB-; Stable
Debt-Subordinate Debt	December 01, 2015	11.50%-11.73%	February 28, 2022	30.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures	February 15, 2016	10.25%-11.57%	June 14, 2018	154.28	CARE BBB-; Stable
Debentures-Non Convertible Debentures	June 09, 2016	9.75%-11.25%	August 12, 2022	170.93	CARE BBB-; Stable
Debentures-Non Convertible Debentures	September 29, 2016	9.75%-10.67%	September 29, 2020	117.48	CARE BBB-; Stable
Debt-Subordinate Debt	September 29, 2016	11-11.5%	March 28, 2023	24.79	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (14-Feb-18)	1)CARE BB+	1)CARE BB+

						2)CARE BB+; Stable (05-Jan-18)	(04-Aug-16)	(01-Oct-15)
2.	Debentures-Non Convertible Debentures	LT	11.09	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (01-Oct-15)
3.	Debentures-Non Convertible Debentures	LT	13.26	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (01-Oct-15)
4.	Debt-Subordinate Debt	LT	25.00	CARE BBB-; Stable	-	1)CARE BB; Stable (05-Jan-18)	1)CARE BB (04-Aug-16)	1)CARE BB (01-Oct-15)
5.	Debentures-Non Convertible Debentures	LT	32.40		-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (01-Oct-15)
6.	Debt-Subordinate Debt	LT	10.00	CARE BBB-; Stable	-	1)CARE BB; Stable (05-Jan-18)	1)CARE BB (04-Aug-16)	1)CARE BB (01-Oct-15)
7.	Debentures-Non Convertible Debentures	LT	19.51	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (01-Oct-15)
8.	Debentures-Non Convertible Debentures	LT	38.94	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (01-Oct-15)
9.	Debt-Subordinate Debt	LT	30.00	CARE BBB-; Stable	-	1)CARE BB; Stable (05-Jan-18)	1)CARE BB (04-Aug-16)	1)CARE BB (01-Oct-15)
10.	Debentures-Non Convertible Debentures	LT	154.28	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (23-Dec-15)
11.	Debentures-Non	LT	170.93	CARE	-	1)CARE BB+;	1)CARE	-

	Convertible Debentures			BBB-; Stable		Stable (05-Jan-18)	BB+ (04-Aug-16) 2)CARE BB+ (11-Apr-16)	
12.	Debentures-Non Convertible Debentures	LT	117.48	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	-
13.	Debt-Subordinate Debt	LT	24.79	CARE BBB-; Stable	-	1)CARE BB; Stable (05-Jan-18)	1)CARE BB (04-Aug-16)	-

Rs

CARE Ratings
Professional Risk Opinion

CARE/CRO/RL/2018-19/1538
Mr. Mathew K Cherian
Managing Director
Kosamattam Finance Limited
Kosamattam M.K.C Building
Market Junction, M.L. Road
Kottayam, Kerala - 686001

December 31, 2018

Confidential

Dear Sir,

Credit rating for outstanding Non-Convertible Debenture issue

On a review of recent developments including operational and financial performance of your company for FY18 (audited) and H1FY19 (provisional), our Rating Committee has reviewed the following rating:

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debenture issue	525.49 **(Rs. Five hundred Twenty Five crore and Forty Nine lakhs Only)**	**CARE BBB-; Stable [Triple B Minus; Outlook : Stable]**	**Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable**

2. The NCDs are repayable by August 2022.
3. Refer **Annexure I** for details of instruments rated.
4. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as Annexure. We request you to peruse the annexed document and offer your comments if any. We are doing

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

CARE Ratings Limited
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Tel./ Fax : +91-44-2849 7812

CIN-L67190MH1993PLC071691

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Tej Kiran G
Analyst
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Ravi Shankar R
Manager
ravi.s@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is 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 CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 02, 2019 we will proceed on the basis that you have no any comments to offer.

5. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

6. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instrument, CARE shall carry out the review on the basis of best available information throughout the life time of such instrument. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

8. CARE ratings are **not** recommendations to buy, sell, or hold any securities.

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Annexure I

Details of Instruments Rated

Facilities	Amount (Rs. crore)
Non-Convertible debenture Issue - I	11.09
Non-Convertible debenture Issue – II	13.26
Non-Convertible debenture Issue – IV	19.51
Non-Convertible debenture Issue – V	38.94
Non-Convertible debenture Issue – VI	170.93
Non-Convertible debenture Issue – VII	154.28
Non-Convertible debenture Issue – VIII	117.48
Total	**525.49**

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Annexure
Press Release
Kosamattam Finance Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[2]	Rating Action
Non-Convertible debenture Issue – I	11.09	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
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Sub-ordinated debt	24.79	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Total Instruments	**615.28 (Rupees Six hundred fifteen crore and twenty eight lakh only)**		

Details of instruments/facilities in Annexure-1

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to various debt instruments of Kosamattam Finance Limited (KFL) factors in improvement in the scale of operations and profitability in the past three years ended March 31, 2018 supported by regular infusion of capital. The rating continues to factor in the long track record of operations, good asset quality, adequate liquidity position and established risk managements systems.

The rating is constrained by moderate capital adequacy levels, geographical concentration of loan portfolio, product concentration on a single asset class with exposure to market risk related to gold and significant investment in fixed assets.

Going forward, the ability of the company to maintain comfortable asset quality, improve profitability and capital adequacy levels while increasing the scale of operations and any change in the regulatory scenario are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong experience of the promoters

Kosamattam group entered into gold loan business in 1980 under Mr. Mathew Cherian. With the experience gained from this venture, the group took over an already established NBFC in 2004 and changed its name to KFL. Under Mr. Mathew Cherian and his son in law Mr. George Thomas, the company has expanded its network across south India and operates out of 948 branches as on March 31, 2018

Evolving risk management systems.

KFL has put in place the adequate credit-appraisal systems. The branch employees have been trained to appraise quality of the gold jewellery provided as security against loan by prospective borrowers which is subsequently verified by the gold appraiser. The company has implemented systems for ensuring the gold security and reducing the custodial risks, including highly secured vaults with dual control and insurance. The internal audit is conducted across the branches covering the disbursements, adherence to process, collection, gold stock etc., and Gold Audit is conducted to verify the weight and purity of the gold. Surprise audit and cash verification is also done in all the branches

RBI, during its review has advised KFL to improve few of its operational practices and compliance. KFL has been implementing the changes suggested by the regulator and adherence to compliance will remain a key sensitivity.

Comfortable asset quality

GNPA and NNPA were at 0.98% and 0.59% as on March 31, 2018 as against GNPA and NNPA of at 0.57% and 0.26% as on March 31, 2017. In order to maintain the NPA at comfortable levels and improve interest collection, the company has reduced the maximum tenure of the loans to 9 months. In case of non-recoverability of interest from the customers, the auction process would be initiated from the end of 9th month in order to minimize the interest and principal loss from auction. Hence, the gold price risk is mitigated to certain extent. With the phasing of the stressed portfolio and with the adequate collateral coverage for the portfolio disbursed with shorter tenure, the profitability is expected to improve going forward. GNPA and NNPA as on September 30, 2018 stood at 1.02% and 0.55% respectively.

The principal/interest loss on the portfolio auction during FY18 and H1FY19 stood at Rs.35 crore and Rs.6 crore respectively.

Improvement in profitability with increase in scale of operations

KFL disbursed gold loans of Rs. 4,747 crore during FY18 as against Rs. 3,933 crore in FY17. During FY18, the loan portfolio witnessed growth of 17% from Rs. 1,922 crore as on March 31, 2017 to Rs. 2,239 crore as on March 31, 2018. Yield has slightly declined from 19.36% in FY17 to 19.11% in FY18 as company started offering lower interest rates for the monthly interest paying product in view of the competition, whereas cost of funds stood at 12.77% in FY18 as against 12.72% in FY17. NIM improved to 6.38% in FY18 from 6.04% in FY17.

Over the past few years the company has been closing the non-profitable branches especially in Kerala and opening branches in newer geographies. As the result, the portfolio per branch for gold loan has shown improvement from Rs.1.34 crore as on March 31, 2015 to Rs.2.46 crore as on March 31, 2018. With increase in portfolio per branch, operating expenses to average assets decreased from 4.74% in FY17 to 4.47% in FY18. With improvement in NIM, decline in operating expenses and stable credit costs, ROTA improved to 1.20% in FY18 from 0.70% in FY17.

As on September 30, 2018, loan portfolio stood at Rs. 2,311 crore. During H1FY19, KFL reported a PAT of Rs.11 crore on a total income of Rs.220 crore.

Comfortable Liquidity position

ALM profile as on September 30, 2018 is at comfortable level with no cumulative negative mismatch in any of the time brackets. ALM is comfortable mainly on account of shorter tenor of loans provided by KFL with access to longer tenure borrowings.

Average borrowing profile

The resource profile is concentrated towards NCDs and Sub Debt which constitutes around 77% as on March 31, 2018 as against 87% as on March 31, 2017. Share of bank borrowings has increased from 13% as on March 31, 2017 to 23% as on March 31, 2018.

Key Rating Weaknesses

Geographical concentration

The loan portfolio is concentrated towards South India. As on March 31, 2018, Tamilnadu constituted around 49% (PY: 52%) of the total loan portfolio, followed by Kerala with 28% (PY: 30%), Karnataka with 12% (PY: 11%) and other states with 11% (PY: 6%).

The company has been making consistent efforts to increase the loan portfolio by way of expanding the branch network and addition of new branches in the other geographies. However, the portfolio is expected to remain concentrated in South India.

Product Concentration

The company earns a major portion of income from lending against Gold. Gold constituted around 91.57% of the total AUM as on March 31, 2018 as against 90.3% as on March 31, 2017. LAP and Microfinance constituted around 7.78% and 0.57% of the portfolio as on March 31, 2018. The proportion of gold loans to the total loan portfolio expected to remain higher in the medium term.

Exposure to real estate sector

KFL has made significant investments in land during FY15 and FY16 amounting to Rs.41 crore from related parties. These assets remain in the books of KFL and no further major investment was made post FY16. The proportion of fixed assets to networth decreased from 52% as on March 31, 2015 to 36% as on March 31, 2018.

Moderate Capitalization levels; however continuous infusion of capital by promoters to support the growth

During FY18 and H1FY19, the company raised capital to the tune of Rs.30 crore and Rs.5 crore respectively via rights issue. To support the growth, promoters have been infusing capital (Rs.23 crore in FY15, Rs.21 crore in FY16, Rs.28 crore in FY17) on need basis.

CAR and Tier I CAR as on March 31, 2018 stood at 17.12% and 12.82% as against 16.68% and 12.22% as on March 31, 2017. CAR and Tier 1 CAR as on September 30, 2018 stood at 17.60% and 12.82%. Timely infusion of capital to maintain CAR levels above regulatory level amidst the growing portfolio is a key rating sensitivity.

Intense competition in the gold loan business

Geographically, the gold loan financing industry is predominantly placed in the southern India with an active interest of both the South India-based banks and the large NBFCs operating out of this region. While the companies are gradually increasing their operations in the other parts of India, southern India is expected to remain as the primary market for gold loans and the competition continues to be intense.

Analytical approach:

Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios-Financial Sector
CARE's Rating Methodology for Non-Banking Finance Companies (NBFCs)

About the Company

Kosamattam Finance Limited (KFL), a non-deposit taking NBFC registered with RBI is part of Kosamattam group. The group was founded by Mr. Chacko Varkey in 1927, with the main activity being chit fund business. In 1980, the group ventured into gold loan business under Mr. Mathew Cherian (grandson of Mr. Chacko). In 2004, the group acquired an already established gold loan NBFC in Kerala called 'Standard Shares and Loans Pvt. Ltd.' and changed its name to Kosamattam Finance Private Limited.

As on March 31, 2018, the company had a loan portfolio of Rs. 2,239 crore with an average ticket size of around Rs. 31,500 (Gold Loans) and lends at interest rates ranging between 12-24%. The company offers loan against used jewellery/ gold ornaments and it constitutes around 92% of AUM as on March 31, 2018 and has its branches in 8 states and 1 union territory. Apart from Gold loans, the company has presence in loan against property and has also ventured into microfinance during FY17. KFL is also an RBI authorized Money Changer and offers forex services like buying and selling foreign currency and remittance abroad through Swift & foreign currency Demand Drafts.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total income	**352**	**431**
PAT	**16**	**31**
Interest coverage (times)	1.12	1.19
Total Assets	2,350	2,789
Net NPA (%)	0.26	0.59
ROTA (%)	0.73	1.20

A: Audited

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
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Tel: 044-2450 1003
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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is 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 CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	May 16, 2014	13.43%	November 16, 2019	11.09	CARE BBB-; Stable
Debentures-Non Convertible Debentures	August 13, 2014	12.62%	June 12, 2020	13.26	CARE BBB-; Stable
Debt-Subordinate Debt	November 08, 2014	13%-13.43%	May 07, 2020	25.00	CARE BBB-; Stable
Debt-Subordinate Debt	March 17, 2015	13%	January 16, 2021	10.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures	March 17, 2015	12.5%-12.62%	January 16, 2021	19.51	CARE BBB-; Stable
Debentures-Non Convertible Debentures	December 01, 2015	11%-11.25%	November 30, 2020	38.94	CARE BBB-; Stable
Debt-Subordinate Debt	December 01, 2015	11.50%-11.73%	February 28, 2022	30.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures	February 15, 2016	10.25%-11.57%	June 14, 2018	154.28	CARE BBB-; Stable
Debentures-Non Convertible Debentures	June 09, 2016	9.75%-11.25%	August 12, 2022	170.93	CARE BBB-; Stable
Debentures-Non Convertible Debentures	September 29, 2016	9.75%-10.67%	September 29, 2020	117.48	CARE BBB-; Stable
Debt-Subordinate Debt	September 29, 2016	11-11.5%	March 28, 2023	24.79	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (14-Feb-18) 2)CARE BB+;	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (01-Oct-15)

						Stable (05-Jan-18)		
2.	Debentures-Non Convertible Debentures	LT	11.09	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (01-Oct-15)
3.	Debentures-Non Convertible Debentures	LT	13.26	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (01-Oct-15)
4.	Debt-Subordinate Debt	LT	25.00	CARE BBB-; Stable	-	1)CARE BB; Stable (05-Jan-18)	1)CARE BB (04-Aug-16)	1)CARE BB (01-Oct-15)
5.	Debentures-Non Convertible Debentures	LT	32.40		-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (01-Oct-15)
6.	Debt-Subordinate Debt	LT	10.00	CARE BBB-; Stable	-	1)CARE BB; Stable (05-Jan-18)	1)CARE BB (04-Aug-16)	1)CARE BB (01-Oct-15)
7.	Debentures-Non Convertible Debentures	LT	19.51	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (01-Oct-15)
8.	Debentures-Non Convertible Debentures	LT	38.94	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (01-Oct-15)
9.	Debt-Subordinate Debt	LT	30.00	CARE BBB-; Stable	-	1)CARE BB; Stable (05-Jan-18)	1)CARE BB (04-Aug-16)	1)CARE BB (01-Oct-15)
10.	Debentures-Non Convertible Debentures	LT	154.28	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	1)CARE BB+ (23-Dec-15)
11.	Debentures-Non Convertible Debentures	LT	170.93	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16) 2)CARE BB+ (11-Apr-16)	-
12.	Debentures-Non Convertible Debentures	LT	117.48	CARE BBB-; Stable	-	1)CARE BB+; Stable (05-Jan-18)	1)CARE BB+ (04-Aug-16)	-

13.	Debt-Subordinate Debt	LT	24.79	CARE BBB-; Stable	-	1)CARE BB; Stable (05-Jan-18)	1)CARE BB (04-Aug-16)	-

CARE Ratings
Professional Risk Opinion

CARE/CRO/RL/2018-19/1543

Mr. Mathew K Cherian
Managing Director
Kosamattam Finance Limited
Kosamattam M.K.C Building
Market Junction, M.L. Road
Kottayam, Kerala - 686001

December 31, 2018

Confidential

Dear Sir,

Credit rating for Sub-ordinated debt issue

On a review of recent developments including operational and financial performance of your company for FY18 (audited) and H1FY19 (provisional), our Rating Committee has reviewed the following rating:

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Sub-ordinated debt issue	89.79 (Rupees Eighty nine crore and seventy nine lakh only)	CARE BBB-; Stable [Triple B Minus ; Outlook : Stable]	Revised from CARE BB; Stable (Double B; Outlook: Stable)

2. Refer **Annexure I** for details of instruments rated.
3. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
4. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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CIN-L67190MH1993PLC071691

required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instrument, CARE shall carry out the review on the basis of best available information throughout the life time of such instrument. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

5. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

6. CARE ratings are **not** recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

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Encl.: As above

Disclaimer

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Annexure I

Details of Instrument rated

Facilities	Amount (Rs. crore)
Sub-ordinated debt – I	25.00
Sub-ordinated debt - II	10.00
Sub-ordinated debt – III	30.00
Sub-ordinated debt – IV	24.79
Total	**89.79**

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