KLM Axiva Finvest Limited

March 18, 2020

Rating

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Remarks**
Long-term Bank Facilities	15	**CARE BB+; Stable** (Double B Plus; Outlook: Stable)	**Reaffirmed**
Total Bank Facilities	**15.00 (Rs. Fifteen crore only)**		
Non-convertible debenture issue-1	66	**CARE BB+; Stable** (Double B Plus; Outlook: Stable)	**Reaffirmed**
Non-convertible debenture issue-2	94	**CARE BB+; Stable** (Double B Plus; Outlook: Stable)	**Reaffirmed**
Non-convertible debenture issue-Proposed	125	**CARE BB+; Stable** (Double B Plus; Outlook: Stable)	**Assigned**
Total Debt Instruments	**285.00 (Rs. Two hundred and eighty five crore only)**		

Details of facility in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities and debt instruments of KLM Axiva Finvest Limited factors continues to be constrained by regional concentration of the loan portfolio, moderate asset quality, moderate profitability profile with high operating cost, evolving MIS systems and processes, concentrated funding profile, relatively higher exposure to riskier borrower segments and exposure to market risk of the gold jewellery kept as security.

The rating however favourably factors in the experience of the promoter and management team and adequate capitalisation levels supported by subordinated debt. The rating also takes note of the significant improvement in the scale of operations during FY19 (refers to the period April 01 to March 31).

Going forward, the ability of the company to grow its portfolio while improving asset quality, improve profitability by the way of reducing its operating expenses while expanding geographically and improve MIS systems will be the key rating sensitivities.

Rating Sensitivities

Positive factors

- Improvement in Asset quality and profitability on a sustained basis with improvement in MIS.

Negative factors

- Further moderation in asset quality.
- Moderation in Profitability and Capital adequacy parameters.
- Inability of the company to improve MIS commensurate with the scale of operations

Credit Risk Assessment

Key Rating Weaknesses

High Geographical Concentration

KLM has presence in 172 branches currently and Gold loan is offered in all the branches. However, other loan products such as business loans, personal loans and microfinance loans are offered majorly only in Kerala. So portfolio remains concentrated towards Kerala.

Moderate asset quality

GNPA and NNPA ratio (180 DPD) moderated to 4.98% and 4.43% as on March 31, 2019 from 4.40% and 3.94% as on March 31, 2018 respectively. As on December 31, 2019, GNPA and NNPA further moderated to 6.42% and 5.34%. GNPA levels are higher in Business loans (7.81%) and Personal loans (10.44%) whereas it remains low in Gold loans (0.24%) as on March 31, 2019.

With the transition in NPA recognition norms from 180+ DPD to 90+ DPD as on March 31, 2020, the ability of the company to control further moderation in asset quality parameters remains a key monitorable.

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

Moderate profitability profile with high operating costs

During FY19, KLM reported NIM of 11.12% as against 18.02% during FY18. The drop in NIM is majorly due to drop in yield during FY19 and increase in the borrowings. Operating expenses to average total assets has improved to 8.78% during FY19 from 13.14% during FY18 but still remains higher majorly due to branch expansion. However, ROTA declines to 1.83% during FY19 from 3.37% during FY18.

During 9mFY20, the company reported an operating profit of Rs.5.9 crore on a total income of Rs.70.2 crore.

Going forward, if the asset quality levels remains higher with transition from 180 DPD to 90DPD, the profitability is expected to be impacted.

Evolving MIS systems and processes

KLM offers gold loans across all the branches whereas business loans and personal loans are offered only in Kerala. With respect to gold loans, the branch employees have been trained to appraise quality of the gold jewelry provided as security against loan. The branches are provided with secured vaults with dual control keys, CCTV cameras and insurance. The company has an internal audit team consisting of 25 members and the team is head by an experienced personnel. The internal audit is a concurrent activity and ensured that every branch is audited once in a month.

KLM has started using a new software 'PROSPER'. The software implementation is in completion stage and once the software is live, portfolio can be tracked on real time basis.

Concentrated Funding Profile

The resource profile is concentrated towards retails debentures which constitutes around 98.56% of the total outstanding borrowing as on March 31, 2019 and rest is towards the bank borrowings mainly in the form of Cash Credit. The company has raised NCDs for Rs.100 crore during November 2018 and Rs.93.83 crore during October 2019. The borrowings are expected to remain concentrated towards debentures in the medium term.

Relatively higher exposure to riskier borrower segments and inherent risk associated with gold loans

KLM is primarily lending towards the business and personal finance needs of the relatively riskier asset class comprising of low income borrowers in the informal sector. Since this segment is highly susceptible to the impact of economic downturn, asset quality is a key monitorable. The management team's good knowledge on this target customer segment provides comfort.

Key Rating Strengths

Experienced Management team

KLM is led by professionals having significant experience in finance industry. Mr Josekutty Xavier, who is the whole time director, has 35 years of experience in chit fund business, hire purchase loans among others. Mr Shibu Theckumpuram who is also the Whole time director of KLM holds a bachelor's degree in economics has 30 years of experience in financial services.

KLMs board consists of people with vast expertise in various fields and is led by Chairman Mr Alexander John Joseph who is the former chief secretary of Karnataka Government and former minister of tourism in Government of Karnataka. The day to day operations of the company are handled by the Whole-time directors and ably assisted by the experienced management team.

Adequate Capitalisation Levels

During FY19, KLM raised equity to a tune of Rs.14 crore from the existing shareholders including promoters as well as new shareholders. However, with improvement in the scale of operations, Tier 1 CAR moderated to 16.74% as on March 31, 2019 from 23.04% as on March 31, 2018. Overall gearing stood at 4.96x as on March 31, 2019. As on December 31, 2019, Tier 1 CAR stood at 14.24% with overall gearing stood at 6.31x. During January 2020, the company raised equity of Rs.2 crore through private placement from the promoters and relatives.

Significant improvement in scale of operations

KLM has presence in 4 states and 172 branches of which 118 branches are in Kerala, 35 branches in Karnataka, 17 branches in Tamilnadu and 2 in Telengana. Loan portfolio grew by 92% from Rs.194 crore as on March 31, 2018 to Rs.374 crore as on March 31, 2019. Gold loans grew at 167% in FY19 from Rs.56 crore as on March 31, 2018 to Rs.149 crore as on March 31, 2019. Whereas business loans grew at 79% from Rs.76 crore as on March 31, 2018 to Rs.136 crore as on March 31, 2019 and personal loans grew at 39% from Rs.45 crore as on march 31, 2018 to Rs.63 crore as on March 31, 2019. Loan portfolio further increased to Rs.473 crore as on December 31, 2019.

Liquidity: Adequate
Gold loans and microfinance loans have a tenor of less than 1 year and other loans have tenor of around 2 years. With the portfolio being funded majorly through longer tenure NCDs, the liquidity position is adequate. KLM also has cash & cash equivalent of Rs.22 crore as on December 31, 2019.

Industry Outlook and Prospects
The NBFC sector has witnessed superior growth rates in the last three years ended FY18, mainly driven by slowdown in credit flow from the banks as they grapple with asset quality challenges and capital constraints. The NBFC sector has demonstrated asset-class specific expertise with sophisticated credit underwriting methods, increased use of data analytics, multi-channel origination, and faster turnaround times helping them gain market share in both retail and wholesale asset classes. Comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs. The same, however, is being put to test under the prevailing liquidity tightness and changed sentiment towards NFBCs since September 2018.
The sector witnessed a liability-side disruption post default by a large infrastructure lender, leading to sharp increase in spreads and drying up of the short-term commercial paper (CP) market. Mutual funds, who were major investors in CPs of NBFCs, faced redemptions and as a result CP rollovers reduced drastically. NBFCs running a negative asset-liability gap in the shorter time buckets had to react to the situation by dipping into their liquidity reserves and/or resorting to portfolio sales to banks to generate liquidity. While the sector has largely met the debt obligations since September 2018, it will have to live with high cost of borrowing till the credit markets normalize. The changed scenario on the liability front is likely to impact the portfolio growth as well as profitability of the NBFCs in the medium term. NBFCs having presence in the wholesale and real-estate lending space are likely to be impacted more vis-à-vis their retail counterparts. NBFCs will have to adjust their business models in light of the current scenario and re-visit their growth plans. Asset quality, liquidity and profitability will be the key monitorables for the sector going forward.

Analytical approach: Standalone.

Applicable Criteria
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE Policy on Default Recognition
Rating Methodology- Non Banking Finance Companies
Financial ratios - Financial Sector

About the company
KLM Axiva Invest Limited (KLM) was incorporated on April 28, 1997 and became a NBFC in the same year by registering with the Reserve Bank of India. The Company was initially operated as Needs Finvest Limited. Later the current management took over the company in 2014 and changed the name to KLM Axiva Finvest India Limited. KLM Axiva Finvest is promoted and led by Mr Shibu Theckumpuram and Mr Jose Kutty Xavier who have 30 years of experience in lending business.
The company offers products such as gold loans, business loans, personal loans, vehicle loans and Micro Finance loans. Apart from lending, the company also offers foreign exchange services, money transfer and insurance brokerage services.
The company currently has 172 branches across various districts in Kerala, Tamil Nadu, Karnataka and Telangana with Head office located in Ernakulam, Kerala. As on December 31, 2019 the total outstanding portfolio stood at Rs.473 crore of which Gold loans accounted for 44% of loan portfolio outstanding followed by business loans (37%), personal loans (11%) and Microfinance loans (8%).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	42.73	68.36
PAT	5.67	5.96
Interest coverage (times)	1.69	1.28
Total Assets	228.49	424.15
Net NPA (%)	3.95	4.43
ROTA (%)	3.37	1.83

Note: a). A – Audited;
b). Ratios have been computed based on average of annual opening and closing balances
c). 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

Annexure-1: Details of Facility

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT - Cash Credit	-	-	-	-	15.0	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue - 1	INE01I507026	6-Nov-18	11.50%	5-Nov-20	5.8	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue - 1	INE01I507034	6-Nov-18	11.75%	5-Nov-21	7.9	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue - 1	INE01I507042	6-Nov-18	12.00%	4-Nov-23	22.6	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue - 1	INE01I507067	6-Nov-18	11.75%	5-Nov-20	1.9	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue - 1	INE01I507075	6-Nov-18	12.00%	5-Nov-21	5.0	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue - 1	INE01I507083	6-Nov-18	12.25%	4-Nov-23	8.5	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue - 1	INE01I507091	6-Nov-18	12.25%	5-Nov-24	14.3	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue -2	INE01I507109	03-Oct-19	11.00%	05-Nov-20	18.9	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue -2	INE01I507117	03-Oct-19	11.00%	05-Nov-20	13.1	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue -2	INE01I507125	03-Oct-19	11.25%	01-Oct-21	6.9	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue -2	INE01I507133	03-Oct-19	11.50%	01-Oct-21	5.4	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue -2	INE01I507141	03-Oct-19	11.50%	01-Oct-22	14.5	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue -2	INE01I507158	03-Oct-19	11.75%	01-Oct-22	3.2	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue -2	INE01I507166	03-Oct-19	11.75%	01-Oct-24	19.1	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue -2	INE01I507174	03-Oct-19	12.00%	01-Oct-24	2.6	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue -2	INE01I507182	03-Oct-19	11.42%	01-Jul-23	2.0	CARE BB+; Stable
Debentures-Non Convertible Debentures Issue -2	INE01I507190	03-Oct-19	11.73%	02-Jan-26	8.3	CARE BB+; Stable
Debentures-Non Convertible Debentures - Proposed	-	-	-	-	125.0	CARE BB+; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BB+; Stable	1)CARE BB+; Stable (04-Apr-19)	-	1)CARE BB; Stable (13-Feb-18)	-
2.	Debentures-Non Convertible Debentures	LT	66.00	CARE BB+; Stable	1)CARE BB+; Stable (04-Apr-19)	-	1)CARE BB; Stable (13-Mar-18)	-
3.	Debentures-Non Convertible Debentures	LT	94.00	CARE BB+; Stable	1)CARE BB+; Stable (24-Jul-19)	-	-	-
4.	Debentures-Non Convertible Debentures	LT	125.00	CARE BB+; Stable	-	-	-	-

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.*

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