India Ratings & Research
A Fitch Group Company

India Ratings Assigns Kerala Financial Corporation’s Bank Loan Facilities ‘IND A’/Stable

Aug 05, 2026 | Kerala Financial Corporation | Other Financial Services

India Ratings and Research (Ind-Ra) has rated Kerala Financial Corporation’s (KFC) bank loan facilities as follows:

Details of Instruments

Instrument Type	Regulator of Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (INR million)	Rating Assigned with Outlook/Watch	Rating Action
Bank loan facilities	RBI	-	-	-	6,000	IND A/Stable	Assigned

Analytical Approach

The rating factors in the standalone financial and operational performance of KFC, which is in line with its peers even though it is a state finance corporation (SFC) with a developmental objective. Ind-Ra's expects KFC to continue servicing its debt obligations comfortably due to its strong credit profile and ability to access funding at competitive rates.

Ind-Ra classifies the entity as a non-dependent public sector entity of the government of Kerala (GoKe).

Detailed Rationale of the Rating Action

KFC plays a strategically important role in Kerala, contributing towards the economic, industrial, and social development by providing financial assistance to micro, small, and medium enterprises (MSMEs) in the manufacturing and service sectors. The rating reflects KFC’s steadily growing size of operations, with healthy net profit during FY24-FY26, and Ind-Ra’s expectation of an improvement in its operating performance in the near to medium term.

The rating is supported by KFC’s long operating track record of over seven decades. The loan book has seen multiple business cycles and KFC has demonstrated its ability to improve asset quality over time. The rating is also supported by KFC’s comfortable asset quality and strong capitalisation. The entity, as an SFC, is regulated by both GoKe and Small Industries Development Bank of India (SIDBI).

The rating, however, is constrained by a concentration risk with the entity operating only in Kerala.

List of Key Rating Drivers

Strengths

- Consistent increase in assets and core income
- Asset quality improvement
- Stable and moderately diversified funding profile
- Strong capitalisation
- KFC's strategic importance to GoKe

Weaknesses

- Moderate concentration risk
- Moderate profitability; high leverage but within limits

Detailed Description of Key Rating Drivers

Consistent Increase in Assets and Core Income: Ind-Ra expects KFC's loan book to grow in the near to medium term, boosting its core income. KFC's interest income (core operating income) posted a CAGR of 21.95% over FY22-FY26 to reach INR9,138.29 million in FY26 (FY25: INR7,951.95 million), mainly due to a rise in the interest income from loans and advances (earning assets), which constituted 84.53% of the total operating income. The loan book reported a CAGR of 17.58% during FY22-FY26, led by loans to the services, infrastructure, and manufacturing sectors. The loans and advances increased consistently and stood at INR90,806.51 million in FY26 (FY25: INR80,119.86 million).

Asset Quality Improvement: Ind-Ra expects KFC's gross non-performing asset (GNPA) ratio to remain moderate over the medium term, due to its good risk management practices and stable collection efficiency amid an expanding asset book. KFC's GNPA declined over FY22-FY26, implying improved recoveries and collections, and the management expects it improve gradually in the near to medium term. The GNPA ratio decreased to 2.32% in FY26 (FY25: 2.67%) from a high of 3.27% in FY22, due to loan book expansion and debt write-offs, with the net non-performing asset ratio at 0.43% (0.60%). KFC's provision coverage ratio was higher at 81.75% in FY26 (FY25: 77.69%) vs comparable private-sector peers. The loan recoveries against disbursements improved and were 96.25% in FY26 (FY25: 94.91%). The average collection efficiency of loans was over 94% over FY23-FY26.

Stable and Moderately Diversified Funding Profile: Ind-Ra expects KFC to expand its lending operations through a combination of internal accruals and borrowings from banks and market sources in the medium term. KFC's borrowing mix is diversified with well-established bank relationships, and it raises funds from the capital markets through non-convertible debentures (NCDs). KFC's liability profile is dominated by bank loans. KFC's outstanding borrowings via NCDs were 18.97% of the total as of FYE26, and the rest were bank loans, both from the public (majority) and private sector banks, at competitive rates. The GoKe has supported KFC through consistent capital infusions, including the recent equity infusion of INR2,000 million in FY25 and INR734.96 million in FY26 as growth capital.

Strong Capitalisation: Ind-Ra expects KFC to maintain its strong capitalisation levels in the medium term. SFCs are regulated by the Reserve Bank of India (RBI) and SIDBI. For financial stability, SFCs (like other NBFCs) must maintain a minimum capital to risk-weighted assets ratio (CRAR) of 15%, ensuring they hold enough capital to buffer against their risk-weighted assets. KFC has maintained its CRAR well above the prudential limit. KFC's capital adequacy ratio improved gradually to 30.70% in FY26 (FY25: 28.65%) from 22.41% in FY22. Tier I capital ratio in FY26 was 30.02% (FY25: 28.05%).

KFC's tangible net worth was INR15,132.71 million as at FYE26 (FYE25: INR13,284.88 million). KFC's steady profitability is likely to remain supportive of its net worth and capitalisation position in the near to medium term. Ind-Ra expects the capitalisation to remain strong and well above the prudential levels over the medium term on a continued improvement in its net worth.

KFC's Strategic Importance to GoKe: Ind-Ra believes KFC is strategically important for the funding requirements of MSMEs in Kerala. The entity operates in a commercial environment, with a focus on augmenting the flow of institutional credit to MSMEs in the state. Moreover, it also acts as a nodal agency for several policy initiatives by GoKe and is responsible for implementing the state's policy initiatives announced in the annual state budget.

KFC has operationalised various policy initiatives by GoKe, such as Chief Minister's Entrepreneurship Development Programme (CMEDP) Edition III and Interest Subvention for Innovative Projects. Ind-Ra expects KFC to rely on internal accruals and borrowings to grow its operations in the medium term.

Moderate Concentration Risk: KFC's loan book posted a CAGR of 17.58% during FY22-FY26 to reach INR90,806.51 million in FY26 (FY22: INR47,510.14 million). The loan book size and sanctions have grown consistently, with the sanctions at INR45,321.05 million in FY26 (FY25: INR40,025.71 million). The lending exposure of KFC's loans and advances is fairly distributed among the manufacturing, service & infrastructure, and commercial real estate (CRE) sectors. The lending exposure was diversified over FY22-FY26 among various industries, with the service & infrastructure sector loans the highest at 82.44% of the total loan book, followed by manufacturing at 12.90%. The top 50 borrowers constituted 61.87% of the loan book at FYE26, with two state government entities as the largest borrowers at 22.02% and 10.18% of the total loan book, mitigating concentration risk.

Moderate Profitability; High Leverage but within Limits: KFC's profitability is moderate vs commercially driven peers. KFC has operated with structurally moderate margins, reflecting its developmental mandate and the nature of its operations, which Ind-Ra expects to continue in the medium term. Its average yield on loans was around 10.12% and average cost of funds around 7.85x during FY22-FY26. Its net interest margin (NIM) was 2.26%-2.64% during FY22-FY26. KFC's net income grew 12.81% yoy to INR1,107.35 million in FY26 (FY25: INR981.59 million). Profitability indicators such as return on average assets was moderate at 1.09% in FY26 (FY25: 1.08%).

KFC's leverage (debt/equity) remained stable at 5.85x in FY26 (FY25: 5.88x) mainly due to retained earnings and equity infusion from GoKe. The SFC Act 1951 prescribes a max leverage of 10x of net worth, but with GoKe/SIDBI approval, KFC can have a higher leverage. Although its leverage ratio is slightly higher than peers, KFC has maintained it within limits as per their policy/statute, which Ind-Ra expects to sustain in the medium term.

Liquidity

Adequate: KFC monitors mismatches across different time buckets. There was no asset-liability mismatch in up to one-year time bucket on as on FYE26. The total cash and cash equivalents, and investments were INR13,708.28 million as on FYE26 (FYE25: INR12,582.39 million). The agency sees these as sufficient to meet the debt obligations of INR5,750.38 million over April-June 2026, assuming nil collections and disbursements.

KFC generally maintains liquidity buffers equivalent to two quarters of debt payment obligations and disbursement commitments. The entity's principal repayment for FY27 amounts to INR22,109.59 million towards the payment of bank facilities and NCDs. Ind-Ra expects the liquidity position to remain adequate over the medium term.

Rating Sensitivities

Positive: A substantial increase in its size and scale of operations while maintaining asset quality, strong capital adequacy ratios, and reducing concentration risk could lead to a positive rating action.

Negative: The following developments could, individually or collectively, lead to a negative rating action:

- sustained asset-liability mismatches in less-than-one-year time bucket
- deterioration in asset quality affecting operating profitability
- a weakening of KFC's strategic importance to the development of MSMEs in Kerala
- the leverage exceeding 6.0x in the medium term on a sustained basis due to a weakening of the asset quality or otherwise
- deterioration in liquidity buffers (minimum three months' buffers to be maintained)

Any Other Information

Not applicable

About the Company

KFC was incorporated in 1953 under the SFC Act by GoKe, focused on lending to MSMEs, startups, and industrial units in Kerala. The GoKe held a 99.37% equity stake as of FYE26, implying KFC's high strategic importance.

The GoKe and SIDBI have a strong level of oversight and control on the management and functioning of KFC. The direction and functioning of KFC is vested with the board of directors. The board of KFC includes representatives from GoKe, SIDBI, Life Insurance Corporation of India, State Bank of India ('IND AAA'/Stable), etc. KFC appoints its external auditors from a panel of auditors approved by the RBI. The Comptroller and Auditor General of India also undertake a supplementary audit under section 143 (6) of the Companies Act, 2013.

Key Financial Indicators

Particulars (INR million)	FY26	FY25
Total assets	1,07,193.47	95,090.79
Tangible equity	15,132.71	13,284.88
Net profit	1,107.35	981.59
Return on average assets (%)	1.09	1.08
Capital adequacy ratio (%)	30.70	28.65
Equity/assets (x)	14.12	13.97
Gross NPA (%)	2.32	2.67
Source: KFC, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limits (INR million)	Current Rating
Bank loan facilities	Long-term	6,000	IND A/Stable

Bank wise Facilities Details

The details are as reported by the issuer as on (05 Aug 2026)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	Canara Bank	Bank loan facilities	5000	IND A/Stable
2	Canara Bank	Bank loan facilities	5000	IND A/Stable
3	Dhanlaxmi Bank	Bank loan facilities	1000	IND A/Stable

4	Dhanlaxmi Bank	Bank loan facilities	1000	IND A/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan facilities	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Financial Institutions Rating Criteria

Rating of Public Sector Entities

The Rating Process