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Kerala Financial Corporation (KFC)

December 10, 2024

Ratings

Instrument Facility /	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Non-Convertible Debentures (NCDs)	1435.38	IVR AA/ Stable (IVR Double A with Stable Outlook)	IVR AA/ Stable (IVR Double A with Stable Outlook)	Reaffirmed	Simple
Proposed Non-Convertible Debentures (NCDs)	693.00 (Decreased from 767.32)	IVR AA/ Stable (IVR Double A with Stable Outlook)	IVR AA/ Stable (IVR Double A with Stable Outlook)	Reaffirmed	Simple
Total			2128.38		
			(Rupees Two Thousand one hundred and twenty-eight crore and thirty-eight lakh Only)		

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics ratings has reaffirmed its ratings assigned to non-convertible debentures of Kerala Financial Corporation (KFC) as it continues to derive comfort the ownership of Government of Kerala and strategic importance of KFC in achieving the socio-economic objectives of the government, comfortable capitalisation, 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.

The Stable Outlook reflects the continued benefits derived from Govt of Kerala and expectations of stable AUM growth along with stable earnings profile over FY25-FY27.

Key Rating Sensitivities:



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Upward Factors

- 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

- Adverse movement in the collection efficiency which impacts the asset quality and the credit costs of the corporation which in turn impacts the profitability for the corporation.
- 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 holds majority shareholding of 99.14%, followed by Small Industries Development Bank of India (SIDBI) (0.84%), Life Insurance Corporation (LIC) (0.01%) and State Bank of India (SBI) at (0.003%). 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. Given the strategic importance of the corporation in overall growth of the state and implementation of its schemes/policies of the state government, the corporation receives regular financial support from the state government.

Comfortable Capitalisation

KFC is comfortably capitalized with total CRAR of 25.52% at the end of FY24 (period refers from 01st April 2023 to 31st March 2024) (25.58% - FY23) as against the minimum regulatory requirement of 15% as on 31 March 2024. The corporation has a tangible net worth of Rs 1,063.67 crore as on 31 March 2024 (Rs.917.04 crore – FY23). Further CRAR and TNW



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improved to 27.38% and Rs. 1,127.91 crore respectively in H1FY25 with retention of profits along with lower growth in AUM.

Structured payment mechanism

The bonds issued by KFC 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 which were raised till FY22 of Rs. 378.38 Crores are secured by “Debt Service Reserve Account” (DSRA) 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% and the DSRA for bonds raised in FY23 and FY24 worth Rs. 1057.00 stood at 10% 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 proposed NCDs of Rs 693.00 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-10th day shall be met through transfer of requisite funds from the DSRA. Both, the Cash Collateral and DSRA would be in the form of cash and cash equivalent, invested in permitted instruments and would remain charged in favour of the debenture trustee. In case of any erosion from the DSRA due to transfer of funds in bond servicing account, the same shall be required to be cured within 30 days (T+30).

Key Rating Weaknesses



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Moderate financial profile of Government of Kerala

The Gross State Domestic Product (GSDP) of the state for 2024-25 (at current prices) is projected to be Rs 13.11 lakh crore amounting to growth of 11.70% over 2023-24. Fiscal deficit for 2024-25 is targeted at 3.4% of GSDP (Rs 44,529 crore). In 2023-24, as per the revised estimates, fiscal deficit is expected to be 3.45% of GSDP, lower than the budget estimate of 3.5% of GSDP. Revenue deficit in 2024-25 is estimated to be 2.1% of GSDP (Rs 27,846 crore), marginally higher than the revised estimates for 2023-24 (2.09% of GSDP). In 2023-24, the revenue deficit is expected to be higher than the budget estimate (2.7% of GSDP).

Average, albeit improving asset quality

Given the socio-economic objective of the corporation, where it provides financial assistance to MSME sector and considering the risks associated with lending to MSME sector, the asset quality of the corporation remains average. Though, the asset quality of the corporation has improved in FY24 on the back of better recovery efforts and persistent monitoring with GNPA and NNPA of the corporation stood at 2.88% and 0.68% respectively from 3.11% and 0.74% respectively in FY23. However, the GNPA and NNPA deteriorated to 4.51% and 2.14% respectively in H1FY25 (5.10% and 3.20% respectively in H1FY24) on account of fresh slippages. The same is expected to improve by the end of FY25 as the corporation provides provisions and write-offs at the end of the year along with expected AUM growth in 2HFY25 as well as expectations of no significant slippages. Infomerics believes that given the business model of the corporation and its exposure to MSME sector, the asset quality continues to be under pressure.

Moderate profitability coupled with high gearing.

Being a state owned NBFC which main objective is to provide financial assistance towards the growth of MSME sector in the state by providing loans at subsidised costs, KFCs profitability remains moderate with NIMs of 1.59% for FY24 (2.34% in FY23). Given the high impairment cost (Rs 135.45 crore for FY24 and Rs 155.40 crore in FY23), the profitability of the corporation remains moderate with ROTA of 0.93% in FY24 (0.80% - FY23) and RONW of 8.07% in FY24 (6.14% - FY23). Also, given that the majority of the loan portfolio growth is funded by external debt, the gearing of the corporation remains high at 6.81x in FY24 (6.75x



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- FY23). Going forward, the ability of the corporation to raise 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.](#)

[Complexity level of rated instruments/Facilities](#)

[Financial Ratios & Interpretation \(Financial Sector\)](#)

[Policy on Default Recognition and Post-Default Curing Period](#)

[Criteria for Government support](#)

Liquidity – Strong

The Corporation is adequately capitalized with total CRAR (%) of 25.52% as on 31 March 2024, and Net worth of Rs 1063.67 Crores. Also, it has adequately matched asset liability profile as on 30 September 2024. As on 30 September 2024, the corporation have liquidity of Rs. 1453.68 crore in the form of cash and bank balances, unutilised bank limits and unmarked FDs.

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 22 Branch Offices with its Head Quarters at Thiruvananthapuram and Zonal Offices at Kozhikode, Ernakulam and Thiruvananthapuram. Dr. Sriram Ventikaraman, IAS is the current 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



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bureaucrats appointed by the Government of Kerala and the other directors representing SIDBI, LIC of India, and State Bank of India (erstwhile State bank of Travancore). The Government of Kerala holds 99.14% stake in the corporation and is expected to support the corporation as and when required, given its systemic importance to the state.

Financials (Standalone)*:

Rs in Crores

For the year ended As on	31-03-2023	31-03-2024
	Audited	Audited
Total Income	694.38	868.72
PAT	50.19	74.04
Tangible Net Worth	917.04	1063.67
Total Debt	6,186.92	7248.16
Total Loan Assets/AUM	6,529.40	7368.33
Ratios		
ROTA (%)	0.80	0.93
Total CRAR (%)	25.58	25.52
Gross NPA (%)	3.11	2.88
Net NPA (%)	0.74	0.68
Overall Gearing (Times)	6.75	6.81
Interest Coverage (Times)	1.21	1.19

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2024-25 July 18, 2024	Date(s) & Rating(s) assigned in 2023-24 Dec 13, 2023	Date(s) & Rating(s) assigned in 2022-23 Feb 21, 2023
1.	NCDs	Long Term	1435.38	IVR AA/ Stable	IVR AA/ Stable	IVR AA/ Stable	IVR AA/ Stable
2.	Proposed NCDs	Long Term	693.00	IVR AA/ Stable	IVR AA/ Stable	IVR AA/ Stable	IVR AA/ Stable
3.	NCDs	Long Term	-	-	-	-	IVR AA/ Stable

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Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Annexure 1: Details of Facilities/Instrument

(Rs. In Crore)

Name of Facility/ Instrument	ISIN	Date of Issuance	Coupon Rate/ IRR %	Maturity Date	Size of Facility (As on 09 July 2024)	Listing Status	Rating
NCDs	INE818F07054	04-04-2018	8.69%	04-04-2025	3.38	Listed	IVR AA/Stable
NCDs	INE818F07062	09-07-2019	8.99%	09-07-2025	62.50	Listed	IVR AA/Stable
NCDs	INE818F07088	09-07-2019	8.99%	09-07-2026	62.50	Listed	IVR AA/Stable
NCDs	INE818F07104	14-09-2020	7.70%	14-09-2026	50.00	Listed	IVR AA/Stable
NCDs	INE818F07112	14-09-2020	7.70%	14-09-2027	50.00	Listed	IVR AA/Stable
NCDs	INE818F07120	14-09-2020	7.70%	14-09-2028	50.00	Listed	IVR AA/Stable
NCDs	INE818F07138	14-09-2020	7.70%	14-09-2029	50.00	Listed	IVR AA/Stable
NCDs	INE818F07146	14-09-2020	7.70%	14-09-2030	50.00	Listed	IVR AA/Stable
NCDs	INE818F07153	24-03-2023	8.90%	30-03-2029	95.30	Listed	IVR AA/Stable
NCDs	INE818F07161	24-03-2023	8.90%	29-03-2030	95.30	Listed	IVR AA/Stable
NCDs	INE818F07179	24-03-2023	8.90%	31-03-2031	95.30	Listed	IVR AA/Stable
NCDs	INE818F07187	24-03-2023	8.90%	31-03-2032	95.30	Listed	IVR AA/Stable
NCDs	INE818F07195	24-03-2023	8.90%	24-03-2033	95.30	Listed	IVR AA/Stable



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NCDs	INE818F07229	02-05-2023	8.63%	30-03-2029	54.70	Listed	IVR AA/Stable
NCDs	INE818F07237	02-05-2023	8.63%	29-03-2030	54.70	Listed	IVR AA/Stable
NCDs	INE818F07211	02-05-2023	8.63%	31-03-2031	54.70	Listed	IVR AA/Stable
NCDs	INE818F07245	02-05-2023	8.63%	31-03-2032	54.70	Listed	IVR AA/Stable
NCDs	INE818F07203	02-05-2023	8.63%	24-03-2033	54.70	Listed	IVR AA/Stable
NCDs	INE818F07252	13-03-2024	8.89%	13-03-2030	61.40	Listed	IVR AA/Stable
NCDs	INE818F07260	13-03-2024	8.89%	13-03-2031	61.40	Listed	IVR AA/Stable
NCDs	INE818F07278	13-03-2024	8.89%	13-03-2032	61.40	Listed	IVR AA/Stable
NCDs	INE818F07294	13-03-2024	8.89%	13-03-2033	61.40	Listed	IVR AA/Stable
NCDs	INE818F07286	13-03-2024	8.89%	13-03-2034	61.40	Listed	IVR AA/Stable
Proposed NCDs					693.00	TBD	
Total					2128.38		

Annexure 2: Facility wise lender details: Not applicable

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities:

Key Terms for the NCD issue - INE818F07054 for Rs 3.38 Crores

Instrument name	SECURED, RATED, LISTED, REDEEMABLE, TAXABLE NON-CONVERTIBLE DEBENTURES.
Issuer	Kerala Financial Corporation
Issue size	Rs 3.38 Crores (INE818F07054 for Rs 3.38 Crores)
Issue date	04/04/2018
Maturity date	04/04/2025
Coupon (Fixed)	8.69%
Coupon payment frequency	Half yearly
Objects of the issue	Working capital requirements
Redemption structure	The series would be redeemed in 4 equal instalments of 25% of the aggregate issue size, with redemption of Series A starting on the date falling at the expiry of 4th year from the date of allotment, Series B starting on the date falling at the expiry of 5th year from the date of allotment and so on.
Key Covenants	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.



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	<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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Key Terms for the NCD issue of Rs 125.00 Crores -, 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 125.00 Crores (INE818F07062 and INE818F07088 for Rs 62.50 Crores each)
Issue date	09/07/2019
Maturity date	09/07/2025 and 09/07/2026
Coupon (Fixed)	8.99%
Coupon payment frequency	Half yearly
Objects of the issue	Working capital requirements
Redemption structure	The series would be redeemed in 4 equal instalments of 25% of the aggregate issue size, with redemption of Series A starting on the date falling at the expiry of 4th year from the date of allotment, Series B starting on the date falling at the expiry of 5th year from the date of allotment and so on.
Key Covenants	The Corporation shall, prior to the pay-in date, deposit into the DSRA an amount equal to the succeeding coupon payment required to be



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	<p>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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Key Terms for the NCD issue of Rs 250.00 Crores - INE818F07104, INE818F07112, INE818F07120, INE818F07138, INE818F07146 for Rs 50.00 Crores each

Instrument name	SECURED, RATED, LISTED, REDEEMABLE, TAXABLE, NON-CONVERTIBLE BOND / DEBENTURES.
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	The series would be redeemed in 5 equal instalments of 20% of the aggregate issue size, with redemption of Series A starting on the date falling at the expiry of 6th year from the date of allotment, Series B



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	starting on the date falling at the expiry of 7th year from the date of allotment 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 273.50 Crores - INE818F07229, INE818F07237, INE818F07211, INE818F07245, INE818F07203 for Rs 54.70 Crores each

Instrument name	8.63% SENIOR, SECURED, RATED, LISTED, REDEEMABLE, TAXABLE NON-CONVERTIBLE DEBENTURES
Issuer	Kerala Financial Corporation
Issue size	Rs 273.50 Crores (INE818F07229, INE818F07237, INE818F07211, INE818F07245, INE818F07203 for Rs 54.70 Crores each)
Issue date	02/05/2023
Maturity date	30/03/2029, 29/03/2030, 31/03/2031, 31/03/2032 and 24/03/2033 respectively
Coupon (Fixed)	8.63%
Coupon payment frequency	Quarterly
Objects of the issue	Working capital requirements



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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.
Conditions for breach of covenants (as specified in Debenture Trust Deed)	Breach of any covenants other than those in respect of payment default and maintenance of security cover would have a cure period of 30 days beyond which it would be construed as an event of default (EOD)
Cash Collateral	The Issuer shall, prior to the Pay-in Date, create permitted investments in terms of the Transaction Documents (“Cash Collateral Permitted Investments”) for an amount equivalent to 10% (Ten percent) of the outstanding principal amount of the Debentures (“Cash Collateral Amount”). The Issuer hereby agrees and undertakes that the Issuer shall, at all times maintain an amount equivalent to the Cash Collateral Amount as permitted investments in terms of the Transaction Documents and the same shall always be lien marked to the debenture trustee as detailed in the Transaction Documents. In case of any erosion in Debt Service Reserve Account as mentioned under structured payment mechanism not getting cured within 30 days after servicing (i.e T+30), the erosion shall be made good by transferring necessary amount of funds / investments to the DSRA. The Debenture Trustee should immediately inform the issuer about this event with an advise to Replenish the Cash Collateral Permitted Investment within the next 30 days (T+60)
Debt Service Reserve Account (DSRA)	<p>The Issuer would be required to open a designated escrow account - “KFC DSRA Account Series II 2023” exclusively for the benefit and charged to the Debenture Trustee (on behalf of the bondholders). In case of further series of issuances, the Issuer shall open similar accounts (Series III, Series IV, etc.)</p> <p>An amount equivalent to the total servicing obligation (Principal & Interest) of the outstanding bonds for the next 2 quarters would need to be maintained by the Issuer in the DSRA account on rolling basis and the initial DSRA amount so calculated would need to be deposited atleast one day prior to the date of pay in.</p>
Structured Payment Mechanism	The Issuer would, starting from the 1st day of each quarterly servicing cycle, remit on every working day an amount equivalent to 2.00% of the aggregate servicing requirement for such quarterly servicing cycle of outstanding bonds issued to KFC Bond Servicing Account Series II 2023. Shortfall of transfer (if any) on any particular day would get cumulative and be carried forward to the next day(s) on a rolling basis. The transfers during a particular quarterly servicing cycle on the above mode should continue till the full build-up of the servicing requirement for that particular quarterly servicing cycle is achieved in the KFC Bond Servicing Account Series II 2023. 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.



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	<p>The Debenture Trustee should independently monitor the adequacy of collection in the KFC BOND SERVICING ACCOUNT SERIES II 2023 on T-15th day and inform KFC through written communication, to fund the short-fall if any by T-10th day. This should also be intimated to the concerned Credit Rating agencies.</p> <p>In the event of such shortfall in KFC BOND SERVICING ACCOUNT SERIES II 2023 not getting fully bridged through payments by KFC by T-10th day, the Debenture Trustee would on T-9th day meet such shortfall by transferring funds from the KFC DSRA BOND SERIES II 2023 and make the necessary payments to the Bond Holders on the due date.</p> <p>However, the T-15th day notice to KFC to fund the shortfall would continue to remain active and if such funding is received subsequently, the same shall be transferred to KFC DSRA BOND SERIES II 2023 to make good the impairment.</p> <p>Further, If any overdues on account of past servicing from KFC DSRA BOND SERIES II 2023 continues to remain till T+30th day, then such overdue amount would be replenished by Cash Collateral available and a notice to issuer to replenish Cash Collateral within next 30 days i.e. T+60th day.</p> <p>In the event of the above not being adhered, the Debenture Trustee would give a final notice to the Issuer for the full replenishment of DSRA and Cash Collateral Permitted Investment within next 7 days. Failing which would lead to an Event of Default (EOD).</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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Key Terms for the NCD issue of Rs 250.00 Crores and green shoe option of INR 226.50 Crores - INE818F07153, INE818F07161, INE818F07179, INE818F07187, INE818F07195 for Rs 95.30 Crores each

Instrument name	8.90% SENIOR, SECURED, RATED, LISTED, REDEEMABLE, TAXABLE NON-CONVERTIBLE DEBENTURES.
Issuer	Kerala Financial Corporation
Issue size	Rs 250.00 Crores s and green shoe option of INR 226.50 Crores - INE818F07153, INE818F07161, INE818F07179, INE818F07187, INE818F07195 for Rs 95.30 Crores each
Issue date	24/03/2023
Maturity date	30/03/2029, 29/03/2030, 31/03/2031, 31/03/2032 and 24/03/2033 respectively



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Coupon (Fixed)	8.90%
Coupon payment frequency	Quarterly
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.
Conditions for breach of covenants (as specified in Debenture Trust Deed)	Breach of any covenants other than those in respect of payment default and maintenance of security cover would have a cure period of 30 days beyond which it would be construed as an event of default (EOD)
Cash Collateral	The Issuer shall, prior to the Pay-in Date, create permitted investments in terms of the Transaction Documents (“Cash Collateral Permitted Investments”) for an amount equivalent to 10% (Ten percent) of the outstanding principal amount of the Debentures (“Cash Collateral Amount”). The Issuer hereby agrees and undertakes that the Issuer shall, at all times maintain an amount equivalent to the Cash Collateral Amount as permitted investments in terms of the Transaction Documents and the same shall always be lien marked to the debenture trustee as detailed in the Transaction Documents. In case of any erosion in Debt Service Reserve Account as mentioned under structured payment mechanism not getting cured within 30 days after servicing (i.e T+30), the erosion shall be made good by transferring necessary amount of funds / investments to the DSRA. The Debenture Trustee should immediately inform the issuer about this event with an advise to Replenish the Cash Collateral Permitted Investment within the next 30 days (T+60)
Debt Service Reserve Account (DSRA)	The Issuer would be required to open a designated escrow account - “KFC DSRA Account Series I 2023” exclusively for the benefit and charged to the Debenture Trustee (on behalf of the bondholders). In case of further series of issuances, the Issuer shall open similar accounts (Series II, Series III, etc.) An amount equivalent to the total servicing obligation (Principal & Interest) of the outstanding bonds for the next 2 quarters would need to be maintained by the Issuer in the DSRA account on rolling basis and the initial DSRA amount so calculated would need to be deposited at least one day prior to the date of pay in. Prior to commencement of principal redemption (from the end of 21 st and 22 nd quarter), the DSRA would need to be suitably augmented within 15 days after the expiry of the 19 th and 20 th quarter to take care of this enhanced servicing liability.
Structured Payment Mechanism	The Issuer would, starting from the 1 st day of each quarterly servicing cycle, remit on every working day an amount equivalent to 2.00% of the aggregate servicing requirement for such quarterly servicing cycle of outstanding bonds issued to KFC Bond Servicing Account Series I 2023. Shortfall of transfer (if any) on any particular day would get cumulative and be carried forward to the next day(s) on a rolling basis. The transfers during a particular quarterly servicing cycle on the above



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	<p>mode should continue till the full build-up of the servicing requirement for that particular quarterly servicing cycle is achieved in the KFC Bond Servicing Account Series I 2023. 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 Debenture Trustee should independently monitor the adequacy of collection in the KFC BOND SERVICING ACCOUNT SERIES I 2023 on T-15th day and inform KFC through written communication, to fund the short-fall if any by T-10th day. This should also be intimated to the concerned Credit Rating agencies.</p> <p>In the event of such shortfall in KFC BOND SERVICING ACCOUNT SERIES I 2023 not getting fully bridged through payments by KFC by T-10th day, the Debenture Trustee would on T-9th day meet such shortfall by transferring funds from the KFC DSRA BOND SERIES I 2023 and make the necessary payments to the Bond Holders on the due date.</p> <p>However, the T-15th day notice to KFC to fund the shortfall would continue to remain active and if such funding is received subsequently, the same shall be transferred to KFC DSRA BOND SERIES I 2023 to make good the impairment.</p> <p>Further, If any overdues on account of past servicing from KFC DSRA BOND SERIES II 2023 continues to remain till T+30th day, then such overdue amount would be replenished by Cash Collateral available and a notice to issuer to replenish Cash Collateral within next 30 days i.e. T+60th day.</p> <p>In the event of the above not being adhered, the Debenture Trustee would give a final notice to the Issuer for the full replenishment of DSRA and Cash Collateral Permitted Investment within next 7 days. Failing which would lead to an Event of Default (EOD).</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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Key Terms for the NCD issue of Rs 307.00 Crores - INE818F07252, INE818F07260, INE818F07278, INE818F07294, INE818F07286 for Rs 61.40 Crores each

Instrument name	8.89% SENIOR, SECURED, RATED, LISTED, REDEEMABLE, TAXABLE NON-CONVERTIBLE DEBENTURES
Issuer	Kerala Financial Corporation



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Issue size	Rs 307.00 Crores (INE818F07252, INE818F07260, INE818F07278, INE818F07294, INE818F07286 for Rs 61.40 Crores each)
Issue date	13/03/2024
Maturity date	13/03/2030, 13/03/2031, 13/03/2032, 13/03/2033 and 13/03/2034 respectively
Coupon (Fixed)	8.89%
Coupon payment frequency	Quarterly
Objects of the issue	Working capital requirements
Redemption structure	Each of sub series would be redeemed in 4 equal instalments of 5% of the aggregate issue size, with redemption of sub series A starting from the end of 21 st quarter, Series B starting from end of 25 th quarter and so on.
Conditions for breach of covenants (as specified in Debenture Trust Deed)	Breach of any covenants other than those in respect of payment default and maintenance of security cover would have a cure period of 30 days beyond which it would be construed as an event of default (EOD)
Cash Collateral	The Issuer shall, prior to the Pay-in Date, create permitted investments in terms of the Transaction Documents ("Cash Collateral Permitted Investments") for an amount equivalent to 10% (Ten percent) of the outstanding principal amount of the Debentures ("Cash Collateral Amount"). The Issuer hereby agrees and undertakes that the Issuer shall, at all times maintain an amount equivalent to the Cash Collateral Amount as permitted investments in terms of the Transaction Documents and the same shall always be lien marked to the debenture trustee as detailed in the Transaction Documents. In case of any erosion in Debt Service Reserve Account as mentioned under structured payment mechanism not getting cured within 30 days after servicing (i.e T+30), the erosion shall be made good by transferring necessary amount of funds / investments to the DSRA. The Debenture Trustee should immediately inform the issuer about this event with an advise to Replenish the Cash Collateral Permitted Investment within the next 30 days (T+60)
Debt Service Reserve Account (DSRA)	<p>The Issuer would be required to open a designated escrow account - "KFC DSRA Account Series I 2024" exclusively for the benefit and charged to the Debenture Trustee (on behalf of the bondholders). In case of further series of issuances, the Issuer shall open similar accounts (Series IV, Series V, etc.)</p> <p>An amount equivalent to the total servicing obligation (Principal & Interest) of the outstanding bonds for the next 2 quarters would need to be maintained by the Issuer in the DSRA account on rolling basis and the initial DSRA amount so calculated would need to be deposited at least one day prior to the date of pay in.</p>
Structured Payment Mechanism	The Issuer would, starting from the 1st day of each quarterly servicing cycle, remit on every working day an amount equivalent to 2.00% of the aggregate servicing requirement for such quarterly servicing cycle of outstanding bonds issued to KFC Bond Servicing Account Series I



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2024. Shortfall of transfer (if any) on any particular day would get cumulative and be carried forward to the next day(s) on a rolling basis. The transfers during a particular quarterly servicing cycle on the above mode should continue till the full build-up of the servicing requirement for that particular quarterly servicing cycle is achieved in the KFC Bond Servicing Account Series I 2024. 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.

The Debenture Trustee should independently monitor the adequacy of collection in the KFC BOND SERVICING ACCOUNT SERIES I 2024 on T-15th day and inform KFC through written communication, to fund the short-fall if any by T-10th day. This should also be intimated to the concerned Credit Rating agencies.

In the event of such shortfall in KFC BOND SERVICING ACCOUNT SERIES II 2023 not getting fully bridged through payments by KFC by T-10th day, the Debenture Trustee would on T-9th day meet such shortfall by transferring funds from the KFC DSRA BOND SERIES I 2024 and make the necessary payments to the Bond Holders on the due date.

However, the T-15th day notice to KFC to fund the shortfall would continue to remain active and if such funding is received subsequently, the same shall be transferred to KFC DSRA BOND SERIES I 2024 to make good the impairment.

Further, if any overdue on account of past servicing from KFC DSRA BOND SERIES I 2024 continues to remain till T+30th day, then such overdue amount would be replenished by Cash Collateral available and a notice to issuer to replenish Cash Collateral within next 30 days i.e. T+60th day.

In the event of the above not being adhered, the Debenture Trustee would give a final notice to the Issuer for the full replenishment of DSRA and Cash Collateral Permitted Investment within next 7 days. Failing which would lead to an Event of Default (EOD).

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.

Draft Term Sheet for Proposed Rs. 693.00 Cr NCDs.



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Instrument	SECURED, RATED, LISTED, REDEEMABLE, TAXABLE NON-CONVERTIBLE DEBENTURES / BONDS
Issuer	Kerala Financial Corporation
Issue Size	Up to Rs 693.00 Crore
Nature of Instrument	Secured
Coupon rate (Fixed)	TBD
Coupon payment frequency	TBD
Tenor	Series A to E (Each for Rs 138.6 Crores), for tenor of 6 years to 10 years, with quarterly redemption in each series, with 1% redemption scheduled at 21st 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 21st quarter, Series B starting from end of 25th quarter and so on.
Objects of the issue	Working capital requirements
Security	The bonds would be secured by way off: 1. Exclusive charge on the KFC Bond Servicing Account series II 2024 and on the amount transferred therein to be utilised only for servicing of the bonds on quarterly servicing dates 2. Exclusive charge on the KFC DSRA Bond Series II 2024 and funds lying therein. 3. Exclusive charge on Cash collateral always permitted investment available equivalent to 10% of face value of principal amount outstanding. 4. Exclusive charge on specific current assets including bookdebts and receivables of the company from identified borrowers. The book value of such assets would provide 100% security cover on the outstanding bonds and interest accrued thereon throughout its entire tenure.
KFC Bond Servicing account	The issuer would be required to open a designated escrow account — "KFC Bond Servicing Account series II 2024" exclusively charged to Debenture trustee.
Key Covenants	The Issuer would be required to open a designated escrow account "KFC DSRA Account Series II 2024" exclusively for the benefit and charged to the Debenture Trustee (on) behalf of the bondholders). In case of further series of issuances, the Issuer shall open similar accounts (Series III. Series IV, etc.) An amount equivalent to the total servicing obligation (Principal & interest) of the outstanding bonds for the next 2 quarters would need to be maintained by the Issuer in the DSRA account on rolling basis and the initial DSRA amount so calculated would need to be deposited atleast one day prior to the date of pay in. The issuer shall, prior to the pay-in-date, create permitted investments in terms of the transaction documents for an amount equivalent to 10% of the outstanding principal amount of the debentures. In case of any erosion in Debt Service Reserve Account as mentioned under structured payment mechanism not getting cured within 30 days after servicing (i.e T+30), the erosion shall be made good by transferring necessary amount of funds / investments to the DSRA., The Debenture Trustee should immediately inform the issuer



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	<p>about this event with an advise to Replenish the Cash Collateral Permitted Investment within the next 30 days (T+60).</p>
Cash Collateral	<p>The Issuer shall, prior to the Pay-in Date, create permitted investments in terms of the Transaction Documents (“Cash Collateral Permitted Investments”) for an amount equivalent to 10% (Ten percent) of the outstanding principal amount of the Debentures (“Cash Collateral Amount”). The Issuer hereby agrees and undertakes that the Issuer shall, at all times maintain an amount equivalent to the Cash Collateral Amount as permitted investments in terms of the Transaction Documents and the same shall always be lien marked to the debenture trustee as detailed in the Transaction Documents. In case of any erosion in Debt Service Reserve Account as mentioned under structured payment mechanism not getting cured within 30 days after servicing (i.e T+30), the erosion shall be made good by transferring necessary amount of funds /investments to the DSRA. The Debenture Trustee should immediately inform the issuer about this event with an advise to Replenish the Cash Collateral Permitted Investment within the next 30 days (T+60)</p>
Debt Service Reserve Account (DSRA)	<p>The Issuer would be required to open a designated escrow Account - "KFC DSRA Account Series II 2024 exclusively for the benefit and charged to the Debenture Trustee (on behalf of the bondholders). In case of further series of issuances, the Issuer shall open similar accounts (Series III, Series IV, etc.) An amount equivalent to the total servicing obligation (Principal & Interest) of the outstanding bonds for the next 2 quarters would need to be maintained by the Issuer in the DSRA account on rolling basis and the initial DSRA amount so calculated would need to be deposited atleast one day prior to the date of pay in.</p>
Structured Payment Mechanism	<p>The Issuer would, starting from the 1st day of each quarterly servicing cycle, remit on every working day an amount equivalent to 2.00% of the aggregate servicing requirement for such quarterly servicing cycle of outstanding bonds issued to KFC Bond Servicing Account Series (II 2024. Shortfall of transfer (if any) on any particular day would get cumulative and be carried forward to the next day(s) on a rolling basis. The transfers during a particular quarterly servicing cycle on the above mode should continue till the full build-up of the servicing requirement for that particular quarterly servicing cycle is achieved in the KFC Bond Servicing Account Series II 2024. 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 Debenture Trustee should independently monitor the adequacy of collection in the KFC BOND SERVICING ACCOUNT SERIES II 2024 on T-15th day and inform KFC through written communication, to fund the short-fall if any by T-10th day. This should also be intimated to the concerned Credit Rating agencies. In the event of such shortfall in KFC BOND SERVICING ACCOUNT SERIES II 2024 not getting</p>



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	<p>fully bridged through payments by KFC by T-10th day, the Debenture Trustee would on T-9th day meet such shortfall by transferring funds from the KFC DSRA BOND SERIES II 2024 and make the necessary payments to the Bond Holders on the due date. However, the T-15th day notice to KFC to fund the shortfall would continue to remain active and if such funding is received subsequently, the same shall be transferred to KFC DSRA BOND SERIES II 2024 to make good the impairment.</p> <p>Further, If any overdue on account of past servicing from KFC DSRA BOND SERIES II 2024 continues to remain till T+30th day, then such overdue amount would be replenished by Cash Collateral available and a notice to issuer to replenish Cash Collateral within next 30 days i.e. T+60th day.</p> <p>In the event of the above not being adhered, the Debenture Trustee would give a final notice to the Issuer for the full replenishment of DSRA and Cash Collateral Permitted Investment within next 7 days. Failing which would lead to an Event of Default (EOD).</p>
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Annexure 4: List of companies considered for consolidated analysis: Not Applicable

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.