Aadhar Housing Finance Limited (formerly known as DHFL Vysya Housing Finance Limited)

February 05, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
CP Programme	1,200.00	1,200.00	[ICRA]A1+ &; Rating placed on Watch with Developing Implications
Total	**1,200.00**	**1,200.00**	

** Instrument details in Annexure-1*
'&' denotes rating on Watch with Developing Implications

Material event

The board of directors of Aadhar Housing Finance Limited (formerly known as DHFL Vysya Housing Finance Limited) (AHFL) along with Wadhawan Global Capital Ltd. (WGCL), Dewan Housing Finance Corporation Limited (DHFL; rated [ICRA]A1+; rating placed on Watch with Negative Implications), Mr. Kapil Wadhawan, Mr. Dheeraj Wadhawan and Ms. Aruna Wadhawan entered into a share purchase agreement with BCP TOPCO PTE LTD (purchaser), an entity controlled by private equity funds managed by Blackstone. The agreement is regarding the proposed transfer of their combined stake of 80.76% in AHFL to the purchaser, subject to regulatory and other approvals.

Impact of material event

The rating has been placed on Watch with Developing Implications as the proposed change in ownership is subject to regulatory and other approvals. ICRA will continue to monitor the developments and will take appropriate rating action once the transaction is concluded and the company's revised business plans are evaluated. Till the conclusion of the transaction, the rating for AHFL continues to factor in the operational, funding and management support received from WGCL and DHFL.

AHFL has an established track record of operating in the lower income segment. The rating factors in the company's focus on home loans (86% of the assets under management (AUM) as on December 31, 2018), good loan origination and appraisal processes, asset quality indicators (gross and net NPA of 1.18% and 0.84%, respectively, as on December 31, 2018) and geographically diversified scale of operations. The rating also factors in the moderate capitalisation levels of the company (on-book gearing of 10.23 times as on December 31,2018) and ICRA notes that post receipt of regulatory approvals, AHFL is also expected to receive a fresh capital infusion of Rs. 800 crore by Blackstone that should support the capitalisation indicators and growth plans of the company once the transaction is concluded. The rating also factors in the adequate liquidity profile and the stable profitability indicators of the company.

Key rating drivers

Credit strengths

Good growth opportunity in affordable housing segment - Given the low penetration level and the Government of India's (GoI) thrust on 'housing for all by 2022', there is good growth opportunity where the loan size is less than Rs. 10

lakh. With nearly 52% of the home loan portfolio, as on September 30, 2018, comprising ticket sizes less than Rs. 10 lakh, the company is well placed to tap the demand in the affordable housing segment.

Geographically diversified operations - The company reported AUM of nearly Rs. 9,623 crore as on December 31, 2018, spread across 316 branches in 19 states. Post its merger with DHFL Vysya Housing Finance Limited, AHFL has an increased presence in southern India and a diverse overall presence in the northern, western and southern regions of India. Given the target customer segment in the affordable housing space and the greater geographical presence, there is significant opportunity despite the competitive landscape.

Diversified funding mix and adequate liquidity profile - While the company has a diverse funding profile, its ability to raise additional funds to continue normal disbursements will be critical. AHFL received funding from National Housing Bank (NHB) and direct assignments (DAs) in Q3 FY2019 leading to cash and liquid investments of around Rs. 1,000 crore as on December 31, 2018. However, the disbursements in Q3 FY2019 shrunk to Rs. 298 crore vis-à-vis Rs. 1,942 crore in H1 FY2019. While the company is highly dependent on bank borrowings, the ability to raise funds regularly at competitive costs will remain a monitorable during the transition period.

Credit challenges

Moderate capitalisation profile – AHFL's capitalisation levels were moderate with gearing of 10.23 times as on December 31, 2018. In Q3 FY2019, the company assigned nearly Rs. 780 crore of the portfolio and the off-balance sheet portfolio accounted for 13.3% of AUM as on December 31, 2018. ICRA notes that post receipt of regulatory approvals, AHFL is also expected to receive a fresh capital infusion of Rs. 800 crore by Blackstone that should support the capitalisation indicators and growth plans of the company once the transaction is concluded.

Adequate profitability indicators – The company's profitability indicators were supported by low credit costs and operating expenses with profit after tax (PAT) in relation to managed advances and return on net worth of 1.87% and 23.51%, respectively, in 9M FY2019 (1.48% and 18.51%, respectively in FY2018). Going forward, AHFL's ability to maintain net interest margins and raise funds at competitive rates will be a key driver of profitability.

To maintain asset quality indicators over cycles given the relatively riskier borrower profile - AHFL lends mainly to the low-income segment, which is more vulnerable to income shocks. Given the pace of growth and the relatively riskier borrower profile of the low and assessed income segments, the asset quality indicators could exhibit more volatility. While the company has a good credit appraisal mechanism, it remains exposed to the volatility in the asset quality given the risk associated with the target borrower segment. Although the overall asset quality has remained steady, given the lower vintage of the portfolio, the company's ability to maintain the same as it scales up operations will be a key monitorable. Further, the asset quality has remained weak in the project loan segment and there have been some slippages in housing loans and loans against property. However, the company has initiated the recovery process. Going forward, AHFL's ability to recover from delinquent accounts and maintain the asset quality indicators across all segments will be important for its credit profile.

Liquidity position

As on December 31, 2018, the company had cash and liquid investments of around Rs. 1,000 crore, including investment in mutual funds and fixed deposits. Payments of around Rs. 575 crore are due in Q4 FY2019, including CP repayment of Rs. 25 crore in March 2019, against which the expected inflow is around Rs. 100-110 crore per month in Q4 FY2019. AHFL received a sanction of Rs. 500 crore from NHB in December 2018. In Q3 FY2019, the company raised nearly Rs. 780 crore through DA transactions with public sector and private sector banks and expects to raise funds through DA transactions in Q4 FY2019 as well.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA rating methodology for housing finance companies ICRA policy on Rating watch and Rating outlook
Parent/Group support	ICRA's ratings for AHFL factor in the operational, funding and management support that it receives from WGCL and DHFL and hence would continue to be impacted by the credit profile of DHFL. Once the transaction is concluded, ICRA would evaluate the revised business plan of the company
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Aadhar Housing Finance Limited (formerly known as DHFL Vysya Housing Finance Limited) (AHFL) is promoted by Wadhawan Global Capital Ltd. (WGCL) with equity participation from International Finance Corporation (IFC), a member of the World Bank Group, one of the largest global development institutions focused exclusively on the private sector in developing countries. The company operates under a housing finance licence and is subject to the rules and regulations of NHB. AHFL has a presence in 19 states with 316 branches and it reported AUM of Rs. 9,622.9 crore as on December 31, 2018.

The company reported PAT of Rs. 135.71 crore on a managed portfolio of Rs. 9,622.9 crore in 9M FY2019. In FY2018, PAT was Rs. 99.72 crore on a managed portfolio of Rs. 7,965.85 crore vis-à-vis PAT of Rs. 63.98 crore on a managed portfolio of Rs. 4,592.63 crore in FY2017 (merged entity).

Key financial indicators

	FY2017	FY2018	9M FY2019
Total income	569.31	798.06	846.38
Profit after tax (PAT)	63.98	99.72	135.71
Net worth	377.90	699.60	839.44
Managed portfolio	4,592.63	7,965.85	9,622.90
Total managed assets	5,073.20	8,440.57	10,959.77
Return on managed assets (PAT/AMA)	1.48%	1.48%	1.87%
Return on average net worth (PAT/Avg. net worth)	19.43%	18.51%	23.51%
Gearing	11.27	10.02	10.23
Gross NPA% on loan portfolio	1.27%	1.17%	1.18%
Net NPA% on loan portfolio	0.86%	0.78%	0.84%
Net NPA/Net worth	10.50%	8.20%	8.29%
CRAR%	18.48%	18.76%	18.33%

PAT: Profit after tax; NIM: Net interest margin; AMA: Average managed assets; RoMA: Return on managed assets; RoE: Return on equity
All ratios as per ICRA calculations; Values in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Chronology of Rating History for the past 3 years FY2019^ Feb-19	May-18	FY2018* Dec-17	Aug-17	FY2017* Sep-16	FY2016* Oct-15
1	Commercial Paper	Short-term	1,200.00	1,200.00	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
	Total		**1,200.00**	**1,200.00**						

Source: ICRA research
** Ratings on the erstwhile DHFL Vysya Housing Finance Limited*
^ Ratings on the merged entity - Aadhar Housing Finance Limited
'&' denotes rating on Watch with Developing Implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN N	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	50.00	[ICRA]A1+ &
NA	Commercial Paper	NA	NA	7-365 days	150.00	[ICRA]A1+ &
NA	Commercial Paper	NA	NA	7-365 days	600.00	[ICRA]A1+ &
NA	Commercial Paper	NA	NA	7-365 days	400.00	[ICRA]A1+ &
Total					**1,200.00**	

'&' denotes rating on Watch with Developing Implications

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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