June 20, 2019

Aadhar Housing Finance Limited: Rating reaffirmed; removed from Watch with Developing Implications

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+; reaffirmed Removed from Watch with Developing Implications
Total	**1,200.00**	**1,200.00**	

** Instrument details are provided in Annexure-1*

Rationale

The short-term rating of [ICRA]A1+ has been removed from Watch with Developing Implications post the change in the ownership of Aadhar Housing Finance Limited (AHFL) and the immediate capital infusion of Rs. 800 crore in the company by BCP Topco VII Pte. Ltd. The Blackstone Group, through its private equity fund (BCP Topco VII Pte. Ltd.), acquired a stake of 98.28% in AHFL from Wadhawan Global Capital Ltd. (WGCL; 69.98% as on March 31, 2019), Dewan Housing Finance Corporation Limited (DHFL; 9.15%), members of the Wadhawan family, International Finance Corporation (IFC; 16.91%) and others, after receiving all the necessary approvals from the regulators and stakeholders. The transaction was announced on the stock exchanges on February 2, 2019 by DHFL and the deal was consummated on June 10, 2019. Following the transfer of ownership, the Blackstone Group infused capital of Rs. 800 crore, strengthening the net worth to nearly Rs. 1,660 crore as on June 11, 2019 (nearly Rs. 860 crore as on March 31, 2019) and leading to improved capitalisation levels (the gearing levels declined by half to below 5 times post the transaction vis-à-vis 9.9 times as on March 31, 2019).

AHFL has an established track record of operating in the lower income segment with its seasoned senior management team having experience in the housing finance sector. The rating factors in the company's focus on home loans (84% of the assets under management (AUM) as on March 31, 2019), good loan origination and appraisal processes, asset quality indicators (gross and net NPA of 1.23% and 0.90%, respectively, as on March 31, 2019) and geographically diversified scale of operations. As on March 31, 2019, the gross NPA on retail AUM, which formed nearly 99.1% of the AUM, was nearly 0.58% and at similar levels as on March 31, 2018. The rating also factors in AHFL's adequate liquidity profile though the timely raising of funds at competitive rates will be a key monitorable. The company's overall ability to raise funds, maintain adequate liquidity and control the operating overheads and credit costs will be a key credit driver as the operations expand.

Key rating drivers

Credit strengths

Geographically diversified scale of operations with focus on home loans – AHFL is a medium-sized player with an AUM of nearly Rs. 10,015.75 crore as on March 31, 2019 (Rs. 7,965.85 crore as on March 31, 2018). The operations are geographically diversified and spread across 311 branches and 2,200 locations in 20 states/Union Territories (UTs) as on March 31, 2019. The company is expected to benefit from the robust demand in the target operating segment with most of the home loans being in the segment of less than Rs. 10 lakh (average ticket size of Rs. 8.6 lakh). Moreover, it has a presence in cities catering to the demand created by the 'Housing for All by 2022' scheme. AHFL is focused on home loans, which formed nearly 84% of the AUM, consistent with prior periods. The salaried to self-employed mix was 68:32 in the home loan segment as on March 31, 2019.

Improved capitalisation profile – The capitalisation indicators are comfortable following the change in the ownership control and the capital infusion of Rs. 800 crore by BCP Topco VII PTE. Ltd. in June 2019. Post the capital infusion, the company's net worth increased to around Rs. 1,660 crore, leading to a reduction in the gearing levels to below 5 times as on June 11, 2019 from 9.9 times as on March 31, 2019. Over the medium term, AHFL plans to operate at net leverage levels in the range of 5-6 times.

Experienced management team with expertise in housing finance; adequate internal controls and systems – The company's management team, which has been retained post the change in ownership, is experienced and has a demonstrated track record of creating scale in the housing finance business. The company has also set up adequate credit appraisal, risk management and portfolio monitoring systems. ICRA expects AHFL to continue to improve its processes and systems, in line with the growth in business volumes.

Good profitability profile – The company's profitability profile is good, supported by low operating expenses and credit costs. It reported steady profitability profile with a profit after tax, in relation to managed advances, of 1.64% and return on net worth of 20.56% in FY2019 compared with 1.70% and 20.95%, respectively, in FY2018. Going forward, AHFL's ability to raise funds at competitive rates and control the credit costs will be important for maintaining the profitability profile.

Growth opportunities in affordable housing segment – The company operates in the affordable housing space, which represents significant growth opportunity, given the Government of India's (GoI) focus on 'Housing for All by 2022' and the low mortgage penetration in India. AHFL is expected to benefit from its vast geographical presence and average ticket size of nearly Rs. 8.6 lakh in the home loan segment, which formed nearly 84% of the AUM as of March 31, 2019.

Credit challenges

Raise funds at competitive rates – As on March 31, 2019, nearly 54% of AHFL's overall borrowing mix was from banks, followed by 19% from off-balance sheet receivables, 17% through non-convertible debentures (NCDs), 9% from National Housing Bank (NHB) and the balance from fixed deposits, commercial papers and inter-corporate deposits. The average cost of borrowings was nearly 9.35% in FY2019. Going forward, the company's ability to raise funds at competitive rates for maintaining normal business growth will be critical.

Maintain asset quality indicators over cycles, given the relatively riskier borrower profile – The company reported stable asset quality indicators with gross NPA of 1.23% and net NPA of 0.90% as on March 31, 2019 (1.17% and 0.78%, respectively, as on March 31, 2018). For the retail book, which formed 99.1% of the AUM as on March 31, 2019, the gross NPA was 0.58%, which was at similar levels as on March 31, 2018. AHFL mainly lends 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. Further, the asset quality has remained weak in the project loan segment with some slippages in housing loans and loans against property (LAP). Going forward, given the low vintage of its portfolio, AHFL's ability to maintain the asset quality as it scales up operations and achieves recoveries from overdue accounts will be important for its credit profile.

Liquidity position

As on May 31, 2019, AHFL had cash and liquid investments of nearly Rs. 800 crore and collections (only the principal portion) of nearly Rs. 290 crore and nearly Rs. 600 crore over the next three and six months, respectively to fulfil the repayment obligations (only the principal portion) of nearly Rs. 470 crore and nearly Rs. 1,000 crore (including the CP repayment of Rs. 100 crore due in September 2019) over next three and six months, respectively. Additionally, AHFL had sanctioned lines of Rs. 400 crore for securitisation and Rs. 800 crore of capital infusion that supported the ALM with positive gaps across buckets. While the present liquidity is comfortable to make the repayments over the near term, regular flow of funds will be critical for maintaining normal business growth.

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	NA
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Aadhar Housing Finance Limited (AHFL) was formed in 2010. BCP Topco VII Pte. Ltd. (managed by the Blackstone Group) has a 98.28% stake in the company. AHFL operates under a housing finance licence and is subject to the rules and regulations of NHB. It caters mainly to the low-income segment and nearly 50% of its portfolio is below the ticket size of Rs. 10 lakh (average ticket size - Rs. 8.6 lakh). The company focuses on home loans that formed nearly 84% of its AUM as on March 31, 2019. The rest of the portfolio is constituted by LAP (14%) and project finance loans (1%). AHFL has a diverse geographical presence across 311 branches and 2,200 locations in 20 states/UTs as on March 31, 2019.

In FY2019, AHFL reported a profit after tax (PAT) of Rs. 162.24 crore on a managed portfolio of Rs. 10,015.75 crore vis-à-vis PAT of Rs. 114.82 crore in FY2018 on a managed portfolio of Rs. 7,965.85 crore.

Key financial indicators (audited)

	FY2017	FY2018*	FY2019*
Total income	569.31	769.65	1,147.74
Profit after tax (PAT)	63.98	114.82	162.24
Net worth	377.90	718.39	859.85
Managed portfolio (AUM)	4,592.63	7,965.85	10,015.75
Total managed assets	5,073.20	8,399.23	11,353.11
Return on managed assets (PAT/AMA)	1.48%	1.70%	1.64%
Return on average net worth (PAT/Avg. net worth)	19.43%	20.95%	20.56%
Gearing	11.27	9.74	9.93
Gross NPA% on loan portfolio	1.27%	1.17%	1.23%
Net NPA% on loan portfolio	0.86%	0.78%	0.90%
Net NPA/Net worth	10.50%	7.99%	8.44%
CRAR%	18.48%	18.76%	18.28%

AMA: Average managed assets
** FY2018 and FY2019 numbers as per Ind-AS*
All ratios as per ICRA calculations; Amount in Rs. crore
Source: ICRA research

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 FY2020^ Jun-19	FY2019^ Feb-19	May-18	FY2018* Dec-17	Aug-17	FY2017* Sept-16
1	Commercial Paper	Short-term	1,200.00	100.00	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
	Total		**1,200.00**	**100.00**						

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	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	1,200.00	[ICRA]A1+
Total					**1,200.00**	

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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