Aspire Home Finance Corporation Limited

Instrument	Amount (Rs. Crore)	Rating Action
Commercial Paper Programme	500.00 (enhanced from 300.00)	[ICRA]A1+ Assigned

ICRA has assigned the short term rating of [ICRA]A1+ to the enhanced Commercial Paper Programme (enhanced to Rs. 500 Crore from Rs. 300 Crore) of Aspire Home Finance Corporation Limited (Aspire). ICRA also has a long term rating of [ICRA]AA- outstanding against the Rs. 900 Crore Non-Convertible Debenture Programme and the Rs. 100 Crore Subordinated Debt Programme of Aspire. The outlook on the long term rating is "Stable".

The rating takes into account the ability of the company to scale up its business, augment its funding lines and the greater visibility on sustainable earnings owing to strong management profile. Aspire's credit profile continues to benefit from it being a subsidiary of Motilal Oswal Securities Limited (MOSL).

While borrower profile for Aspire remains 'low and middle income home loan segment', which is riskier compared to large ticket salaried / self employed segment financed by mainstream borrowers, underlying risks are lower than the segment served by emerging affordable housing finance companies. Owing to difference in the risk profile, Aspire is in a position to charge interest rates higher than the large mortgage financiers, but lower than the emerging affordable housing finance companies. Management knowledge and track record in the segment are likely to ensure good asset quality. Further, Asipre's moderate leveraging as well as its ability to get equity support from MOSL provides strong comfort. Aspire's ability to tie up long term funding, further improve its earnings profile and to maintain a sound liquidity profile would continue to influence its credit profile. Monoline nature of business and limited diversification in earnings continue to influence the credit profile negatively.

The asset quality of the portfolio continues to remain healthy with Gross NPA level of 0.19% as on Mar-16, Increased business volumes and robust asset quality has led to an improvement in earnings profile of the company with the company reporting PAT/ATA of 2.2% and a PAT/Average Net Worth of 14.1% during FY2016 (as opposed to PAT/ATA of 1.0% and a PAT/Average Net Worth of 2.6% during FY 2015).

The improved financial performance is accompanied by other positives like further diversification in borrowing profile of Aspire (the company has been able to raise funds from more than 35 lenders, including a small funding line from NHB, at competitive rates with a healthy mix of bank funding and capital market borrowing), and expansion of board with induction of two new independent members. The liquidity profile of the company is comfortable with no significant ALM mismatches on account of factors like moderate gearing (5.3 times as on Mar-16) and adequate buffer in the form of liquid investments (around Rs. 180 as on Mar-16) and sanctioned undrawn limits.

ICRA rating continues to factor in the strong credit profile of Aspire's ultimate parent (Motilal Oswal Financial Services Limited; rated [ICRA]AA with stable outlook) and the commitment of Motilal Oswal Group to this entity - in terms of both capital support (Rs. 300 crore equity capital has been infused till date and another Rs. 200 crore is expected to come in FY2017) and board level supervision. With Aspire, Motilal Oswal Group marks its first foray outside the capital market business. In ICRA's view, the entry in housing finance space would aid the Motilal Oswal Group to diversify its revenue profile and reduce its dependence on the capital market related businesses that are more cyclical in nature. This makes Aspire strategically important to the Group. Given the strong parentage, the company is expected to maintain adequate capitalization profile in the near term, despite its strong growth plans.

ICRA also draws comfort from the long standing experience of the company's senior management in the housing finance business, company's focus on low-ticket retail borrower segment, prudent underwriting norms and lending process, and the investments made by the company in putting together its IT and risk management systems. Going forward (especially in light of the high growth aspirations of the company), Aspire's ability to arrest any significant deterioration in the asset quality, and simultaneously maintaining strong liquidity profile would remain the key rating considerations.

Company Profile

Aspire Home Finance Corporation Limited (Aspire)

Aspire is promoted by Motilal Oswal Securities Limited (MOSL). The promoters have made an equity investment of Rs. 300 core in AHFCL till date. The company started its lending operations in May 2014. The portfolio of the company stood at around Rs. 2,087 crore as on March 31, 2016, spread over 61 branches located in the states of Gujarat, Maharashtra, Madhya Pradesh and Telangana. The company is catering to primarily lower and middle income (LMI) borrower segment for purchase of affordable residential units with a maximum ticket size of Rs. 25 lakhs.

The portfolio of Aspire is an even mix of financing to both Salaried (~52% of portfolio) and Self-Employed (~48% of portfolio) customers. Aspire's target segment is low and middle income (LMI) borrowers with need to purchase affordable residential units for self-consumption. Accordingly, the company has presence largely in Tier II and Tier III locations. The management intends to continue its focus on retail home loan segment going ahead as well. The maximum ticket size offered is Rs. 25 lakhs (which qualifies under priority sector lending) and average ticket size in the portfolio is around Rs. 13.0 lakhs. Average LTV offered on the loans is around 64% while the Fixed Obligation to Income Ratio (FOIR) is usually restricted at 60%.

For FY 2015, Aspire reported PAT of Rs. 2.2 crore on an asset base of around Rs. 400 crore as on March 31, 2015. During FY 2016 (unaudited), Aspire reported PAT of Rs. 40.0 crore on an asset base of Rs. 2,309 crore as on March 31, 2016. While Aspire reported healthy operating income of 9.0% of ATA for FY 2015, given the high operating expenses (6.9% of ATA for FY 2015) due to initial set-up costs, the PBT was more subdued at 1.9% of ATA during the same period. However, there was a marked improvement seen in the performance of the company during FY 2016, with a reported PBT/Average Total Assets (ATA) of 3.4%, supported by a reduction in the operating expenses (2.4% of ATA during FY 2016) and a sizeable capital gain on investment in liquid securities (1.2% of ATA during FY 2016).

About Motilal Oswal

The Motilal Oswal group is one of India's leading providers of capital-market-related services; it offers a number of services, such as retail and institutional broking, wealth management, loan against shares, margin financing, commodities broking, investment banking, and venture capital management. Motilal Oswal Financial Services Limited (MOFSL), incorporated in 2005, is a non-deposit-taking non-banking financial company providing margin financing services to the group's retail broking clients and is the group holding company. The group's promoters collectively own 72.01% of MOFSL's equity shares as on March 31, 2016. On a Consolidated Basis, Motilal Oswal reported a Total Income of Rs. 1092.7 crore and a PAT (after exceptional and extraordinary items) of Rs. 169.1 crore in FY2016.

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For further details please contact:

Analyst Contacts:

Ms. Vibha Batra, (Tel. No. +91-124-4545 302)
vibha@icraindia.com

Relationship Contacts:

Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

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Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	