Aspire Home Finance Corporation Limited

January 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	700.00	1,000.00	[ICRA]A1+; Assigned
Bank Lines Programme	3,000.00	3,000.00	[ICRA]AA- (stable); Outstanding
Non Convertible Debenture Programme	1,900.00	1,900.00	[ICRA]AA- (stable); Outstanding
Subordinated Debt Programme	100.00	100.00	[ICRA]AA- (stable); Outstanding
Market Linked Debenture Programme	300.00	300.00	PP-MLD[ICRA]AA- (stable); Outstanding
Total	**6,000.00**	**6,300.00**	

Rating action

ICRA has assigned the rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 1,000 crore enhanced commercial paper programme (enhanced from Rs. 700 crore) of Aspire Home Finance Corporation Limited (Aspire). ICRA has a long term rating of [ICRA]AA- (pronounced ICRA double A minus) outstanding for the Rs. 3,000 crore bank lines programme, Rs. 1,900 crore non-convertible debenture programme and Rs. 100 crore subordinated debt programme of Aspire. ICRA also has a long term rating of PP-MLD[ICRA]AA- (pronounced principle protected market linked debenture ICRA double A minus) outstanding for the Rs. 300 crore market linked debenture programme. The outlook on the long-term rating is stable.

Rationale

The rating takes into account the strong ultimate parentage of the company by virtue of being part of the Motilal Oswal group. Aspire is a step-down subsidiary of Motilal Oswal Financial Services Limited (rated [ICRA]AA with stable outlook), the flagship entity of the group, which directly and indirectly holds 96% equity in the entity as on September 30, 2017. The rating also factors in the healthy growth in the loan book, the company's focus on on the housing finance segment, an asset class which has traditionally exhibited lower delinquency and loss given default than other asset classes, with no immediate plans to venture into the loan against property (LAP) or builder loan segments, and its healthy capital adequacy (CRAR of 34.64% as on September 30, 2017) supported by the regular equity infusions by the promoter group. The strengths are however partially offset by the geographical concentration of operations with Maharashtra and Gujarat accounting for 85% of the overall portfolio as on September 30, 2017. ICRA also takes note of the sharp deterioration in gross non-performing assets (NPA) and net NPA as a percentage of advances increasing to 2.83% and 2.39% as on September 30, 2017 respectively from 0.58% and 0.47% as on March 31, 2017. The deterioration in asset quality indicators has also impacted the company's profitability in H1FY2018 with ROE declining declining to 10.40% in H1FY2018 from 16.72% in FY2017. The company, however, has strengthened its processes and systems and has enhanced its focus on collections. Going forward, the company's ability to maintain asset quality while ramping up the loan book and as the portfolio seasons would be a key rating sensitivity.

Outlook: Stable

ICRA believes that Aspire will continue to benefit from the capital support and board level supervision from Motilal Oswal group. The outlook may be revised to 'Positive' if there is a substantial and sustained improvement in the company's profitability, leading to an improvement in its financial risk profile. The outlook may be revised to 'Negative' in case of further deterioration in the company's asset quality indicators leading to adverse impact on the financial profile. The outlook could also be revised to negative if the parents' commitment to this venture, and the ability to support it, in terms of regular capital support, reduces.

Key rating drivers

Credit strengths

Strong parentage; committed capital support and board level supervision from Motilal Group- Aspire benefits from the strong ultimate parentage, by virtue of being a part of the Motilal Oswal Group. Aspire is a step-down subsidiary of Motilal Oswal Financial Services Limited (rated [ICRA]AA with stable outlook), the flagship entity of the group, which directly and indirectly holds 96% equity in the entity as on September 30, 2017. MOFSL has demonstrated strong commitment to Aspire, in terms of both capital support and board level supervision. With the company's operations being in an expansion phase, regular equity infusion (Rs. 100 crore received in H1FY2018) commensurate with the portfolio ramp-up would be required. The support of a strong parent coupled with the demonstrated track-record of capital infusion provides comfort from a rating perspective. The company also enjoys enhanced financial flexibility supported by this association with the group.

Significant ramp-up of operations with continued focus on retail housing loans – In FY2017, the company's portfolio grew from Rs. 2,094 crore as on March 31, 2016 to Rs. 4,141 crore as on March 31, 2017, registering a growth of 98%. Aspire's portfolio as on September 30, 2017 stood at Rs. 4,818 crore. Aspire extends housing loans to retail borrowers, and has hitherto maintained an even mix of salaried and self-employed customers (52:48 as on September 30, 2017). The company largely focuses on the affordable housing segment catering to first time buyers with an average ticket size being ~Rs. 9 lakh. The focus on housing finance segment is expected to continue over the near to medium term with no immediate plans of foray into other asset classes like loans against property (LAP), lease rental discounting (LRD) or builder loans. ICRA views this as a credit positive, given the higher risk associated with the LAP and builder loan segment vis-à-vis the individual housing loan segment, an asset class which has traditionally demonstrated lower lower delinquency and loss given default levels.

Diversified funding profile with a healthy mix of bank and capital market borrowings - As on September 30, 2017, Aspire had raised funding from 26 banks and 24 institutions. The company has diverisified its borrowing profile and has been able to tap the capital markets. Over the years the share of debt market in the overall borrowing has increased from 27% as on March 31, 2015 to 53% as on September 30, 2017; with the balance from bank lines. Aspire has also been raising short term borrowing through issuance of commercial papers at relatively competitive rates. However, as on September 30, 2017, the company had no commercial paper outstanding.

Comfortable capitalisation profile; gearing expected to increase with scale – Aspire's capitalisation continues to remain healthy with a reported capital to risk weighted assets ratio (CRAR) of 34.64% as on September 30, 2017, as against 31.37% as on March 31, 2017. The improvement in the current fiscal was driven by Rs. 100 crore equity infusion by the Motilal Oswal Group in H1FY2018. Further, this also resulted in a moderation in the company's gearing to 5.33 times as on September 30, 2017, as compared to 6.26 times as on March 31, 2017. On adjusting for liquid investments and cash holdings, the gearing improves further to 5.05 times as on September 30, 2017 as compared to 5.56 times as on March 31, 2017. Going forward, the gearing is expected to increase with the growth in the loan book. Aspire's ability to manage its liquidity position, mobilise funds at competitive rates and maintain a diversified funding mix would be a key rating monitorable.

Credit weaknesses

Sharp deterioration in asset quality indicators in the current fiscal – The company's gross NPA (NPA) and net NPA as a percentage of advances increased to 2.83% and 2.39% as on September 30, 2017 respectively from 0.58% and 0.47% as on March 31, 2017. The rise in NPA could be attributed to seasoning of the loan-book, inadequate collection infrastructure till last fiscal along with other structural changes in the industry link implementation of Real Estate (Regulation and Development) Act (RERA) and Goods and Services Tax (GST) regime. With a large share of the disbursements being made in the last two fiscals, the loan book continues to remains relatively unseasoned. This, coupled with the higher risks associated with the segment and the limited ability of the borrowers to absorb income shocks, could result in further deterioration in the asset quality indicators (especially the delinquencies in the softer buckets). ICRA however takes note of the company's effort to focus on collections and its efforts to strengthen the systems and process to contain delinquencies within reasonable levels. Going forward, the company's ability to maintain asset quality while ramping up the loan book and as the portfolio seasons would be a key rating sensitivity.

Moderate profitability indicators –With the company's lending rates being stable in H1FY2018, the company has been able to maintain healthy net interest margins (4.48% in H1FY2018). With the increase in credit costs as a result of the deterioration in asset quality indicators in H1FY2018, the net profitability (profit after tax to average total assets) declined from 2.35% in FY2017 to 1.49% in H1FY2018. This coupled with the equity infusion in H1FY2018 resulted in the ROE of the company declining to 10.40% in H1FY2018 from 16.72% in FY2017. The company's ability to improve profitability as it scales up, while maintaining lending spreads in the competitive affordable housing segment would be critical.

Geographical concentration of operations - Aspire's operations are focused on Tier II and Tier III cities or extended suburbs of metro locations. The portfolio however remains concentrated in the states of Maharashtra and Gujarat with the two states together accounting for 85% of the overall portfolio as on September 30, 2017. Within Maharashtra, the company has been establishing its presence in cities close to Mumbai and Pune. The company has also been increasing its presence in Madhya Pradesh, Tamil Nadu, Karnataka and Rajasthan among other states. Going forward, incremental profitability from both existing and new branches would be a key monitorable.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Rating Methodology for Housing Finance Companies

About the company

Aspire Home Finance Corporation Limited (Aspire) is a housing finance company (HFC) promoted by the Motilal Oswal group. The flagship company of the group, Motilal Oswal Financial Services Limited is rated at [ICRA]AA (stable). The company commenced the lending operations in May 2014, and had a portfolio of ~Rs. 4,818 crore as on September 30, 2017. Aspire has a network of 125 branches located primarily in Maharashtra, Gujarat and Madhya Pradesh. The company caters primarily to the lower and middle income borrower segment for purchase of affordable residential units with a maximum ticket size of Rs. 25 lakh. It has presence largely in Tier II and Tier III locations or extended suburbs of metro locations. The portfolio of Aspire is an even mix of financing to both salaried (~52% of portfolio) and self-employed (~48% of portfolio) customers. In FY2017, Aspire reported a PAT of Rs. 82 crore on an asset base of around Rs. 4,664 crore while during FY2016, it reported a PAT of Rs. 40 crore on an asset base of Rs. 2,309 crore. In H1FY2018, Aspire reported a PAT of Rs. 37 crore on an asset base of Rs. 5,131 crore. The company had a networth of Rs. 772 crore and a gearing of 5.33 times as on September 30, 2017.

Key Financial Indicators (Audited)

	FY2016	FY2017
Net interest income	66.54	103.76
Profit before tax	61.32	125.67
Profit after tax	40.00	82.09
Portfolio	2,094.01	4,140.79
Total assets	2,308.77	4,663.97
% Tier 1		
% CRAR		
Gearing	5.32	6.26
% Return on assets	2.95%	2.35%
% Return on net worth	15.97%	16.72%
% Gross NPAs	0.19%	0.58%
% Net NPAs	0.16%	0.47%
Net NPA/Net worth	0.96%	3.06%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		FY2017		FY2016			FY2015	
					Jan-18	Dec-16	Jul-16	Mar-16	Dec-15	Jul-15	Feb-15	
1	Bank Lines Programme	Long Term	3,000.00	1,885.07	[ICRA] AA- (stable)	[ICRA] AA- (stable)	[ICRA]A A- (stable)	-	-	-	-	
2	Non Convertible Debenture programme	Long Term	1,900.00	1,424.70	[ICRA] AA- (stable)	[ICRA] AA- (stable)	[ICRA] AA- (stable)	[ICRA]AA- (stable); upgraded from [ICRA]A+ (positive)	[ICRA] A+ (positive)	[ICRA]A+ (positive)	-	
3	Subordinated Debt Programme	Long Term	100.00	50.00	[ICRA] AA- (stable)	[ICRA] AA- (stable)	[ICRA]A A- (stable)	[ICRA]AA- (stable); upgraded from [ICRA]A+ (positive)	[ICRA] A+ (positive)	[ICRA]A+ (positive)	-	
4	Market Linked Debenture Programme	Long Term	300.00	290.20	PP-MLD [ICRA] AA- (stable)	PP-MLD [ICRA] AA- (stable)	PP-MLD [ICRA] AA- (stable)	-	-	-	-	
5	Commercial Paper Programme	Short Term	1,000.00	1,000.00	[ICRA] A1+; assigned	[ICRA] A1+	[ICRA] A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE658R07075	Non Convertible Debenture	7-Jul-15	10.84%	6-Jul-18	150.00	[ICRA]AA- (stable)
INE658R07091	Non Convertible Debenture	17-Aug-15	10.84%	16-Aug-18	100.00	[ICRA]AA- (stable)
INE658R07117	Non Convertible Debenture	10-Nov-15	9.75%	10-Nov-20	150.00	[ICRA]AA- (stable)
INE658R07133	Non Convertible Debenture	14-Mar-16	10.70%	8-Apr-19	70.00	[ICRA]AA- (stable)
INE658R08057	Non Convertible Debenture	28-Apr-16	11.15%	28-Apr-21	50.00	[ICRA]AA- (stable)
INE658R08065	Non Convertible Debenture	6-May-16	11.00%	6-May-19	25.00	[ICRA]AA- (stable)
INE658R08073	Non Convertible Debenture	17-May-16	11.00%	17-May-19	100.00	[ICRA]AA- (stable)
INE658R07141	Non Convertible Debenture	17-May-16	10.70%	5-Jun-19	125.00	[ICRA]AA- (stable)
INE658R08081	Non Convertible Debenture	14-Jun-16	11.00%	16-Mar-20	50.00	[ICRA]AA- (stable)
INE658R08099	Non Convertible Debenture	30-Jun-16	11.00%	28-Jun-19	50.00	[ICRA]AA- (stable)
INE658R08115	Non Convertible Debenture	22-Jul-16	8.95% (variable)	21-Jul-23	250.00	[ICRA]AA- (stable)
INE658R08107	Non Convertible Debenture	22-Jul-16	10.85%	22-Jul-20	100.00	[ICRA]AA- (stable)
INE658R07125	Non Convertible Debenture	27-Jul-16	9.85%	15-May-23	99.70	[ICRA]AA- (stable)
INE658R07158	Non Convertible Debenture	27-Jul-16	0%, Yield 10.25%	27-Jul-18	5.00	[ICRA]AA- (stable)
INE658R08123	Non Convertible Debenture	9-Aug-16	11.00%	9-Dec-19	50.00	[ICRA]AA- (stable)
INE658R08131	Non Convertible Debenture	21-Sep-16	10.50%	30-Aug-19	50.00	[ICRA]AA- (stable)
-	Non Convertible Debenture - Proposed	NA	NA	NA	475.30	[ICRA]AA- (stable)
INE658R07166	Market Linked Debentures	9-Aug-16	NA	9-Dec-19	80.00	PP-MLD[ICRA]AA- (stable)
INE658R07174	Market Linked Debentures	23-Aug-16	NA	23-Dec-19	20.00	PP-MLD[ICRA]AA- (stable)
INE658R07190	Market Linked Debentures	1-Sep-16	NA	1-Jan-20	74.60	PP-MLD[ICRA]AA- (stable)
INE658R07182	Market Linked Debentures	1-Sep-16	NA	1-Jan-20	8.00	PP-MLD[ICRA]AA- (stable)
INE658R07208	Market Linked Debentures	6-Sep-16	NA	2-Jan-20	17.40	PP-MLD[ICRA]AA- (stable)
INE658R07216	Market Linked Debentures	7-Oct-16	NA	6-Feb-20	69.10	PP-MLD[ICRA]AA- (stable)

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE658R07224	Market Linked Debentures	26-Oct-16	NA	25-Feb-20	6.00	PP-MLD[ICRA]AA- (stable)
INE658R07232	Market Linked Debentures	28-Oct-16	NA	27-Feb-20	10.00	PP-MLD[ICRA]AA- (stable)
INE658R07240	Market Linked Debentures	17-Nov-16	NA	18-Mar-20	5.10	PP-MLD[ICRA]AA- (stable)
-	Market Linked Debentures - Proposed	-	-	-	9.80	PP-MLD[ICRA]AA- (stable)
INE658R08024	Subordinated Debt	3-Feb-16	11.00%	3-May-21	30.00	[ICRA]AA- (stable)
INE658R08032	Subordinated Debt	16-Feb-16	11.00%	16-May-21	20.00	[ICRA]AA- (stable)
-	Subordinated Debt - Proposed	-	-	-	50.00	[ICRA]AA- (stable)
-	Commercial Paper Programme	-	-	7-365 days	1,000.00	[ICRA]A1+
-	Term Loans	Sep-14	-	Apr-34	1,858.07	[ICRA]AA- (stable)
-	Working Capital/ Cash Credit Lines	Jan-17	-	-	460.00	[ICRA]AA- (stable)
-	Bank Lines – Proposed	-	-	-	681.93	[ICRA]AA- (stable)

Source: Aspire Home Finance Corporation Limited

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About ICRA Limited:

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