

July 31, 2020

Aadhar Housing Finance Limited (formerly known as DHFL Vysya Housing Finance Limited): Rating reaffirmed; Rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Commercial paper programme	1,200	600	[ICRA]A1+; reaffirmed and rated amount reduced
Total	1,200	600	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the healthy scale and geographically diversified operations of Aadhar Housing Finance Limited (AHFL). As on March 31, 2020, the company had a portfolio of Rs. 11,432 crore spread across 294 branches in more than 2,500 locations in 20 states/Union Territories (UTs). Further, AHFL's operations are focused on the affordable home loan segment with home loans comprising 85% of the portfolio as on March 31, 2020 (81% as on March 31, 2019). Given the low penetration level and the Government of India's (GoI) thrust on Housing for All by 2022, there are good growth opportunities for small ticket size home loans. Moreover, with 90% of its loan portfolio comprising ticket sizes up to Rs. 20 lakh, the company is well placed to tap the demand in the affordable housing segment.

However, given the new entrants, the competition has become intense and with the expected impact of Covid-19-led disruptions, the company's ability to manage the pressure on its business growth and asset quality will remain a key monitorable. The rating also takes into account the experienced management and adequate internal controls and systems. Post the change in ownership¹, the senior management team has been retained, which has maintained stability in the company's operations. Further, the investor infused Rs. 1,300 crore of equity capital into the company in FY2020 (Rs. 800 crore in June 2019 and Rs. 500 crore in March 2020), which has led to an improved capitalisation profile with a gearing (reported) of 4.15 times as on March 31, 2020 compared to 9.64 times as on March 31, 2019. AHFL was carrying significant on-book liquidity (~23% of total assets) as on March 31, 2020, adjusting for which the net gearing was much lower at 2.88 times as on March 31, 2020. Over the medium term, AHFL plans to operate at net leverage levels in the range of 5-6 times. The rating also factors in the company's fairly diversified funding profile, which comprised loans from banks (69%), refinance from National Housing Bank (NHB; 11%), non-convertible debentures (NCDs; 19%), subordinated debt (1%) and deposits (1%) as on May 31, 2020.

However, AHFL's profitability profile moderated in FY2020 with a moderation in the net interest margins and an increase in the credit costs. The company made an additional provision of Rs. 49.51 crore (0.38% of average managed assets; AMA; 0.55% of on-book portfolio as on March 31, 2020) in FY2020 on account of Covid-19, which led to an increase in the credit costs. Consequently, AHFL reported a net profit of Rs. 189.39 crore in FY2020, translating into a return of 1.45% on AMA and 11.81% on the average net worth (Rs. 162.24 crore, 1.64% and 20.56%, respectively, in FY2019).

¹ The Blackstone Group acquired a majority stake from the erstwhile promoters and investors in June 2019; as on March 31, 2020, the Blackstone Group held a 98.74% stake in the company

Given the pace of growth and the relatively riskier borrower profile of the low-and-assessed-income segments, the asset quality indicators could exhibit volatility. Collections in the affordable housing finance segment have been impacted by the Covid-19-led disruptions. ICRA expects the asset quality to deteriorate in FY2021 as livelihoods have been impacted and the savings corpus would also start reducing gradually. While the company has a good credit appraisal and collection mechanism, which has helped maintain stable asset quality indicators with gross NPA of 1.29% and net NPA of 0.78% as on March 31, 2020 (1.23% and 0.90%, respectively, as on March 31, 2019), it remains exposed to the volatility in the asset quality, given the risk associated with the target borrower segment. Going forward, AHFL's ability to maintain the asset quality as it scales up its operations will be important for its credit profile.

Key rating drivers and their description

Credit strengths

Healthy scale of operations with geographically diversified portfolio – The company has witnessed a steady growth in its portfolio over the years, which increased to Rs. 11,432 crore as on March 31, 2020 from Rs. 5,102 crore as on March 31, 2017. Further, AHFL's operations are geographically diversified and spread across more than 2,500 locations in 20 states/UTs through 294 branches as on March 31, 2020. The top 3 states accounted for 43% of the company's portfolio compared to 40% as on March 31, 2019. Home loans comprised 85% of the company's portfolio (81% as on March 31, 2019) and the share of the salaried segment stood at 66% of the portfolio as on March 31, 2020 (68% as on March 31, 2019).

Experienced management team; 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 the business volumes.

Adequate capitalisation profile – Subsequent to the majority stake purchase by BCP Topco VII Pte Ltd, the investor infused Rs. 1,300 crore of equity capital in the company in FY2020 (Rs. 800 crore in June 2019 and Rs. 500 crore in March 2020). Post the capital infusion, the company's capitalisation profile has improved significantly with the gearing (reported) at 4.15 times as on March 31, 2020 compared to 9.64 times as on March 31, 2019. AHFL was carrying significant on-book liquidity (~23% of total assets) as on March 31, 2020, adjusting for which the net gearing was much lower at 2.88 times as on March 31, 2020. Over the medium term, AHFL plans to operate at net leverage levels in the range of 5-6 times.

Fairly diversified funding profile – The funding profile is fairly diversified and comprised loans from banks (69%), refinance from NHB (11%), NCDs (19%), subordinated debt (1%) and deposits (1%) as on May 31, 2020. The company did not issue any commercial papers in FY2020 and Q1 FY2021 and there are no commercial papers outstanding as on date. In terms of fund raising, post the change in ownership, AHFL has been able to raise funds regularly from diversified funding sources, having raised around Rs. 3,800 crore of on-book borrowings in FY2020. The company raised Rs. 3,300 crore through term loans from 12 different banks, Rs. 200-crore refinance from NHB and Rs. 300 crore through NCDs in FY2020 at a weighted average cost of 8.78%. In Q1 FY2021, the company raised Rs. 200 crore in the form of NCDs under the targeted long-term repo operations (TLTRO) scheme at 8% p.a. Apart from NCDs, AHFL raised Rs. 150 crore through term loans from banks and Rs. 545-crore refinance from NHB in Q1 FY2021.

Growth opportunities in affordable housing segment – Given the low penetration level and the GoI's thrust on Housing for All by 2022, there are good growth opportunities for small ticket size home loans. As on March 31, 2020, 85% of the company's portfolio comprised home loans. Moreover, with 90% of its loan portfolio comprising ticket sizes up to Rs. 20

lakh, the company is well placed to tap the demand in the affordable housing segment. However, given the new entrants, the competitive landscape and the impact of Covid-19, AHFL's ability to manage the pressure on margins will remain a key monitorable.

Credit challenges

Moderate profitability indicators – AHFL's yield on average earning assets moderated by 149 bps in FY2020 to 11.57%, largely on account of company maintaining high liquid assets yielding low returns, while the cost of average interest-bearing funds declined by 80 bps to 8.67%. With the decline in yields outpacing the decline in the cost of average interest-bearing funds, the net interest margin moderated by 50 bps to 4.10% of AMA in FY2020. The operating expenses also moderated to 1.83% of AMA in FY2020 from 2.31% in FY2019 as the company resorted to branch rationalisation. However, the credit costs increased to 0.84% of AMA in FY2020 from 0.32% in FY2019 as AHFL increased its provision coverage on developer loans and made an extra provision with the expectation of increased slippages in FY2021 owing to Covid-19. The company made an additional provision of Rs. 49.51 crore (0.38% of AMA; 0.55% of on-book portfolio as on March 31, 2020) in FY2020 on account of Covid-19 and Rs 39.99 crores on developer loans. It reported a net profit of Rs. 189.39 crore in FY2020, translating into a return of 1.45% on AMA and 11.81% on the average net worth (Rs. 162.24 crore, 1.64% and 20.56%, respectively, in FY2019).

Ability to maintain asset quality – The company reported stable asset quality indicators with gross NPA of 1.29% and net NPA of 0.78% as on March 31, 2020 (1.23% and 0.90%, respectively, as on March 31, 2019). AHFL mainly lends to the borrowers in 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. Collections in the affordable housing finance segment have been impacted by the lockdown on account of Covid-19. ICRA expects the asset quality to deteriorate in FY2021 as livelihoods have been impacted and the savings corpus would also start reducing gradually. 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. Going forward, AHFL's ability to maintain the asset quality as it scales up its operations will be important for its credit profile.

Liquidity position: Strong

The company's liquidity profile is strong given the significant on-book liquidity, the collections received despite offering a moratorium to the borrowers and the demonstrated ability to raise funds. The company had Rs. 2,463 crore of free cash, bank balances and liquid investments as on June 30, 2020 against scheduled debt obligations of Rs. 751 crore till December 31, 2020. Further, it reported a collection efficiency (unadjusted for moratorium) of ~78% in June 2020, which further supports the liquidity profile. In Q1 FY2021, AHFL raised Rs. 200 crore in the form of NCDs under the TLTRO scheme at 8% p.a. Apart from NCDs, the company raised Rs. 150 crore through term loans from banks and Rs. 545-crore refinance from NHB in Q1 FY2021.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Pressure on the company's rating could arise if there is a deterioration in the asset quality with the gross NPA exceeding 2.5%, thereby affecting the profitability. A deterioration in the capitalisation profile with the gearing exceeding 6 times on a sustained basis or a stretch in the liquidity could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Aadhar Housing Finance Limited (formerly known as DHFL Vysya Housing Finance Limited (DHFL Vysya)) was set up in 1990 by the erstwhile Vysya Bank (as Vysya Housing Finance), with equity support from other banks and institutions, to provide rural housing loans. In 2003, Dewan Housing Finance Corporation Limited (DHFL) acquired 58.0% equity shares of the company and renamed it DHFL Vysya Housing Finance Limited. Subsequently, DHFL's promoters, the Wadhawan family, acquired an additional 33.0% of DHFL Vysya's equity shares from ING Vysya Bank. In May 2012, DHFL divested its shareholding in DHFL Vysya to its promoter family. On November 20, 2017, DHFL Vysya amalgamated with erstwhile Aadhar Housing Finance Limited (incorporated in 2010) and the company was subsequently renamed Aadhar Housing Finance Limited. The promoters sold their entire shareholding to the Blackstone Group on June 10, 2019 and completely exited the company. At present, the Blackstone Group has a 98.74% stake in the company.

The company focuses on the lower-and-middle-income segment and provides home loans, loan against property and developer loans. As on March 31, 2020, AHFL was present in 20 states/UTs through a network of 294 branches while managing a portfolio of Rs. 11,432 crore.

Key financial indicators (audited)

As per For the period ended	Ind-AS FY2019	Ind-AS FY2020
Net interest income	367.62	451.32
Profit after tax (PAT)	162.24	189.39
Net worth	859.85	2,347.18
Total managed assets	11,353.11	14,736.33
% PAT / Average managed assets	1.64%	1.45%
% PAT / Average net worth	20.56%	11.81%
% Gross NPAs	1.23%	1.29%
% Net NPAs	0.90%	0.78%
% Net NPA / Net worth	7.31%	2.98%
% Capital adequacy ratio	18.28%	51.42%
Gearing (reported)	9.64	4.15

All ratios are as per ICRA calculations; Amounts in Rs. crore; Source: Company & ICRA research

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years				
	Type	Rated Amount	Amount Outstanding	31-Jul-20	FY2020 20-Jun-19	FY2019 05-Feb-19	FY2018 18-May-18	FY2018 04-Dec-17	FY2018 29-Aug-17
1 Commercial paper programme	Short term	600	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

& Denotes rating on Watch with Developing Implications; Amounts in Rs. crore

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial paper programme	-	-	-	600.00	[ICRA]A1+

Source: Company

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