

## Ashv Finance Limited

January 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	200.00 (Enhanced from 20.00)	CARE BBB; Stable	Reaffirmed
Non-Convertible Debentures	30.00	CARE BBB; Stable	Reaffirmed
Non-Convertible Debentures	50.00	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation in the ratings assigned to the debt instruments/bank facilities of Ashv Finance Limited (AFL) takes into consideration the change in strategy to de-risk the lending portfolio with focus on lower ticket-size loans (avg. ticket size of Rs.1 crore in FY19 to Rs. 8 lakhs in FY22) along with robust underwriting and sector specific lending to mitigate the stress on asset quality due to Covid-19 disruptions. It also factors in the demonstrated support from the company's promoter; Aavishkaar Intellect group by way of capital infusion leading to strong capitalization levels and investment by strong foreign institutional investors like Omdiyar Network Mauritius, Triodos Investment Management and Developing World Markets. It also factors in healthy growth in granular portfolio over the last 3 years.

The rating strengths are however partially offset by moderate profitability parameters, moderate asset quality given the stress on the legacy book along with unsecured book and limited track record of the company.

Further improvement in profitability and scalability of business along with maintaining good asset quality will be the key rating sensitivities.

### Rating sensitivities: Factors likely to lead to rating actions.

#### Positive factors

- Sustained scaling up of business over Rs.1000 crore of AUM.
- Robust profitability with ROTA above 1 time on a sustained basis.
- Improvement in asset quality; Gross NPA less than 3% over a sustained period.

#### Negative factors

- Deterioration in asset quality – Gross NPA more than 5% on a sustained basis.
- Deterioration in profitability-ROTA falls below 0.5%

### Analytical approach

CARE has analysed standalone credit profile of Ashv Finance Ltd.

### Key strengths

#### Demonstrated support from promoter group and investment by strong institutional investors.

AFL is a part of the Aavishkaar Group which is focused on developing impact ecosystems in Asia and Africa. As on Sept 30, 2022, Aavishkaar Group held 62.55% stake in AFL. In FY20, the promoter group infused aggregate equity of around Rs.100 crore demonstrating continuous support to the company. Promoter group has cumulatively invested Rs.150 crores in FY19 and FY20. There was no equity infusion in FY22 since the company was lowly levered and adequately capitalized with a CRAR of 21.86% as on September 30, 2022. The company is also backed by foreign institutional investors like Omdiyar Network (ON), Mauritius, a philanthropic investment firm holds 15.45 % stake, Triodos Investment Management, a wholly owned subsidiary of Triodos Bank, holds 12.04% and Developing World Markets (International) Mauritius Limited holds 9.66% stake in AFL.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Experienced management team**

AFL has been promoted by Mr. Vineet Rai, who heads the Board of Directors of AFL and also is the founder and Chairman of Aavishkaar Group and has over 18 years of experience in early-stage investing, small business incubation and microfinance. Mr. Nikesh Sinha was appointed as the Managing Director & Chief Executive Officer (MD & CEO) in October 2018. Prior to joining AFL, he was heading the medium enterprises group in the SME vertical at Axis Bank. The company also appointed Ms. Kiran Agarwal Todi as the Chief Financial Officer (CFO) in January 2019. Mrs. Todi has over 18 years of experience and was CFO of Home First Finance Company India Limited prior to joining AFL. Mr. Ranjan Lahiri joined as Chief Risk Officer during June 2019. Mr. Lahiri is a Chartered Accountant with 20 years of experience at HDFC Bank in diversified domains like Operations, Credit Appraisal and Risk, Portfolio Monitoring, Financial & RBI reporting.

**Comfortable capitalization, low gearing & good capital raising ability.**

AFL continues to maintain a comfortable capital adequacy level. As on September 30, 2022, CRAR of the company stood at 21.86% (FY22: 27.35%) as against the regulatory requirement of 15%, indicating sufficient cushion over the regulatory requirement. Majority of the capital is composed of equity capital with Tier 1 CAR at 20.97% (FY22:26.46%). Aavishkaar Group has cumulatively invested Rs.150 crores in FY19 and FY20 and since then there was no incremental capital infusion. For the current fiscal, AFL plans to raise around Rs.100-150 crore of equity in order to expand its existing business through institutional investors. However, we believe capital support would be required to maintain the gearing in 3.5-4 times range. Nevertheless, the Gearing has increased slightly from 2.71 times in FY22 to 3.45 times in H1FY23 on the back of increased borrowings to support business expansion.

As on September 30, 2022, the company had total borrowings of around Rs.809 crore. Majority of the debt funding for AFL is in the form of term loans from NBFCs and banks.

**Healthy business growth**

As on December 31, 2022, the AUM stood at Rs. 998.47 crore as against Rs. 727.89 crore as on March 31, 2022. The growth was largely driven by significant disbursements done in 9MFY23 (Rs.633 crore). The change in strategy to reduce the average ticket size from Rs.1 crore to less than 25 lakhs has also helped AFL to drive the business growth. The company's product offerings include business loans (95.7%), SME loans (legacy book) (1.88%), Partnership/fintech loans (1.37%), on-lending loans (1%) The company will now focus only on the small ticket size business loan. On-lending book will be capped at 10% of the total portfolio and will largely be extended to the existing customers. Legacy SME term loans and SCF loans are expected to be run down during the course of their maturity.

**Key weaknesses****Moderate financial performance**

During H1FY23, the AFL's AUM grew by 37% YTD to Rs.998.47 crore mainly due to expansion in business operation. However, the company has seen a decrease in profitability for H1FY23 the company has a net loss of Rs. 7.62 crore as against a net profit of Rs. 5.47 crore in FY22. The loss is present on account for the provisions that were made which were around Rs. 23.75 crore in H1FY23. NIM of the company has been compressed from 10.67% in FY21 to 8.13% in FY22 on account of increase in cost of funds due to increase in borrowings base. NIM for the company was around 8.27%. The opex has remained high as salary expenses and branch expenses were paid for every month in last 2 years and as against the business operations have only happened around 7 to 8 months for the FY22. Consequently, ROTA and RONW decreased and stood at 0.72% and 2.44% in FY22 as against 1.41% and 3.48% respectively in FY21. Annualized ROTA and RONW was around -1.53% and -6.56% for H1F23.

**Moderate Asset Quality**

As on September 30, 2022, the Gross NPA ratio of the company stood at 3.13% as against 4.01% in FY22. Out of the Gross NPA of Rs 27.93 crore; majority contribution (38% of total GNPA) is from the legacy book. After the pandemic, the company has stopped its lending towards non-essential sectors and is focusing towards lending only in the essential segments like pharma, kirana store, essentials etc. in order to maintain robust asset quality. The company has also restructured loans aggregating to about Rs. 13.44 crores during FY22.

**Modest size of operations albeit some improvement**

After the induction of new Senior management in FY19, there has been a change in the strategy of the company from venture debt financing to primarily unsecured granular MSME lending. The company is also scaling up its branches and sales network. The company has expanded its reach from 3 branch in FY19 to 32 branches in FY22. It has also tightened its credit underwriting as well as strengthen its sales and collection verticals. As on September 30, 2022, the company's AUM stood at Rs.998.47 crore as against Rs. 727.89 crore in FY22; 37% growth in H1FY23. Majority of the disbursements have happened in the last years.

**High proportion of unsecured book and limited vintage of the company**

AFL is currently engaged in providing unsecured MSME loans through various products like gati loans, banking surrogate loans, business instalment loans and GST loans, The borrower profile largely includes shop owners, , traders, pharmacists etc. where the cash flows are largely dependent on the level of economic activities. Robust underwriting is largely critical in maintaining a robust asset quality in this segment. Out of the total portfolio of Rs.727.8 crore, almost 84% of the book is unsecured in nature which remains key in controlling the asset quality metrics (88% of the business loan borrowers have a CIBIL score of 700+ which provides additional comfort).

The business profile of the company revamped in FY19 where the company stopped disbursing high ticket size loans and started lending only in smaller ticket size loans which led to decline in average ticket size from 1 crore to 12 lakhs. The company has disbursed Rs.633 crore during H1FY23 and Rs. 598 during FY22. Majority of the disbursements have happened in last two years with product tenure of 2 to 3 years indicating limited cycles. Also, the revamped business model has a vintage of only 4 years and hence the business model needs to be monitored further.

**Liquidity: Adequate**

The ALM of the company as on March 31, 2022, showed no negative cumulative mismatches in any of the buckets up to 5 years. As on December 31, 2022, cash and bank balance along with liquid investments of Rs.100.74 crore as against debt obligation of Rs.114 crore. The company's collections are also comfortable with collection efficiency being at 94%. In addition to this, AFL has funds raising from various lenders which are in pipeline in H2FY23, and the company is expecting capital infusion as well.

**Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Non-Banking Financial Companies](#)

[Policy on Withdrawal of Ratings](#)

**About the company**

Ashv Finance Ltd (AFL) is an NBFC incorporated in February 1998. On October 08, 2020, the company had received the approval from Registrar of Companies for change in the name of the company from "Jain Sons Finance Ltd" to "Ashv Finance Ltd". Ashv is a phygital led NBFC empowering the small and emerging businesses of India. It is engaged in funding the MSME sector through

various products both secured and unsecured financing within focus sectors of essential services. The company is promoted by the Avishkaar group since 2011 which is focused on developing the impact ecosystem in the continents of Asia and Africa. The group is led by Mr. Vineet Rai who is the founder and Chairman of the group. Ashv Finance started its lending operations in 2013 with venture-debt financing. In mid FY19, the revamping of the business model was done from venture debt financing to small ticket size business loan.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total income	97.85	128.52	97.71
PAT	7.96	5.47	(7.62)
Interest coverage (times)	1.08	1.04	0.85
Total Assets	610	906	1087
Net NPA (%)	1.52	1.55	1.09
ROTA (%)	1.41	0.72	(1.53)

A: Audited; UA: Unaudited

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE411R07095	12-Aug-21	13.65%	13-Sep-2023	6.40	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE411R07178	22-Aug-22	13.15%	30-Sep-2024	16.80	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE411R07160	18-Jun-22	13.00%	13-Jul-2023	10.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE411R07145	20-May-22	12.25%	27-Nov-2028	15.00	CARE BBB; Stable
Debentures-Non-Convertible Debentures (Proposed)	-	-	-	-	31.80	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	-	Aug-2025	200.00	CARE BBB; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (01-Apr-19)
2	Debentures-Non-Convertible Debentures	LT	30.00	CARE BBB; Stable	1)CARE BBB; Stable (24-Jun-22)	1)CARE BBB; Stable (28-Jun-21)	1)CARE BBB-; Positive (29-Jun-20)	1)CARE BBB-; Positive (09-Oct-19) 2)CARE BBB-; Stable (01-Apr-19)
3	Debentures-Non-Convertible Debentures	LT	50.00	CARE BBB; Stable	1)CARE BBB; Stable (24-Jun-22)	1)CARE BBB; Stable (28-Jun-21)	1)CARE BBB-; Positive (29-Jun-20)	1)CARE BBB-; Positive (09-Oct-19) 2)CARE BBB-; Stable (01-Apr-19)
4	Fund-based - LT-Term Loan	LT	200.00	CARE BBB; Stable	1)CARE BBB; Stable (24-Jun-22)	1)CARE BBB; Stable (28-Jun-21)	1)CARE BBB-; Positive (29-Jun-20)	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities**

Name of the Instrument	Detailed Explanation
<b>A. Financial covenants</b>	
Fin care Small Finance Bank	Company must maintain the following at all times during currency of loan. GNPA <=6% CRAR >=20% Leverage (Debt/Equity) <=4
IDFC First Bank	Asset Quality: NNPA to be maintained <3% CRAR to be maintained >20%
Kotak Mahindra Bank Ltd	TOL/TNW should not be >4.50 times during the currency of KMBL loan (TL-1). If it exceeds 4.50 times, then borrower to bring in cash margin of 5% of term loan limits. Gross Stage 3 assets should not exceed 5% of the total loan book during the currency of KMBL loan (TL-1).

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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