Aadhar Housing Finance Limited (erstwhile DHFL Vysya Housing Finance Limited) (Revised)

July 09, 2018

Ratings

Instruments	Amount (Rs. Crore)	Rating*	Remarks
Non-Convertible Debentures*	3000 (Rs. Three Thousand crore only)	**CARE AA+(SO);Stable (Double A Plus (Structured Obligation); Outlook: Stable)**	**Assigned**

Details of instruments/facilities in Annexure-1

*The ratings are based on credit enhancement in the form of a 'Letter of Comfort 'issued by Dewan Housing Finance Corporation Ltd. (DHFL), rated **CARE AAA" (Triple A); Stable**, in favour of AHFL's lenders.
All the above ratings are backed by a letter of comfort issued by Dewan Housing Finance Corporation Ltd.

Detailed Rationale & Key Rating Drivers of DHFL (LOC provider)
Detailed Rationale & Key Rating Drivers
The rating factors in consistent track record of Dewan Housing Finance Corporation Limited (DHFL) in the housing finance sector spanning over three decades across business cycles and expertise in lending to the lower-middle income group borrower segment while maintaining asset quality. The growing credit demand in this market segment coupled with the Government's thrust on providing affordable housing are expected to enable DHFL in further strengthening its business position in this segment. The ratings also factor in DHFL's experienced management, adequate capital adequacy, diversified resource profile, stable profitability and increasing share of non-housing loans, which is a relatively riskier segment. Capitalization levels, gearing and asset quality are the key rating sensitivities.

Detailed description of the key rating drivers
Key rating strengths

Consistent track record of business performance across business cycles and expertise in lending in the niche market segment of Lower and Middle Income group
DHFL has a consistent track record of over three decades in the housing finance business spanning across business cycles. Over the years, the company has developed expertise in lending to borrowers in the lower and middle income group segment while maintaining stable asset quality. The penetration of housing finance market in India continues to be low and India's urban housing shortage is primarily driven by the LIG and EWS categories. The growing credit demand in this market segment coupled with the Government's thrust in providing affordable housing throughout the country through various schemes/ programmes is expected to enable DHFL in further strengthening its business position in this segment.

Experienced management
The company's management team is led by Mr Kapil Wadhawan who is the Chairman and Managing Director (CMD). Mr. Harshil Mehta is JMD & CEO of the company. He is assisted by an experienced management team. The group few years back had formed group management centre (GMC) which has inducted experienced professionals from the industry. The GMC comprises of Mr. Srinath Sridharan, Mr. M. Suresh (former MD and CEO – Tata AIG) and Mr. G Ravi Shankar (former CEO and CFO roles in GE, Jet Airways and Geometric Limited). The role of the GMC is to provide strategic direction to group companies and bring in better governance.

Diversified resource profile and average capitalization levels
The company has demonstrated track record of raising capital (both equity and debt) at regular intervals to fund business growth and has a diversified resource profile. As on March 31, 2018, bank borrowings comprised 42% of the total borrowings [P.Y.: 42%], NHB refinance- 3% [P.Y.: 4%], market borrowings- 40% [P.Y.: 42%], public deposits- 11% [P.Y.: 8%] and external commercial borrowings- 3% [P.Y.: 4%]. DHFL's overall gearing remain stable at 10.54x as on March 31, 2018 [P.Y.: 10.29x]. The company also recently concluded public issuance of NCD of Rs.12,000 crore.
As on March 31, 2018, company's CAR and Tier I CAR stood at 15.29% [P.Y.: 19.12%] and 11.52% [P.Y.: 14.75%] respectively.

Comfortable asset quality
Over the years, DHFL has developed the expertise in lending to the low-middle income group segment while maintaining comfortable asset quality parameters. However, asset quality of its LAP and project finance portfolio remains to be seen.

The company reported Gross NPA ratio of 0.96% as on March 31, 2018 [P.Y.: 0.94%] and Net NPA ratio of 0.56% [P.Y.: 0.58%]. The Net NPA to Net worth ratio stood at 5.85% as on March 31, 2018 [P.Y.: 5.30%].

Stable profitability

During FY18, NIM remains stable at 2.46% as compared to 2.50% in FY17. DHFL reported PAT of Rs.1172 crore in FY18 as against PAT of Rs.2896 crore (including one-time gain of Rs.1969 crore) in FY17. During FY18, DHFL's ROTA (adjusted for one time profit) as well as adjusted ROTA (adjusted for off book assets and one time profit) remained stable at 1.17% [P.Y.: 1.16%] and 1.02% [P.Y.: 1.03%].

Comfortable liquidity profile

As on March 31, 2018, the liquidity statement showed positive cumulative mismatch in the short term bucket of up to 1 year. Further, DHFL also has unutilized funding lines of Rs.3,603 crore (including NHB sanctions, unutilized CC facilities and unavailed term loan and pool buyout sanctions) which is expected to enable the company in bridging the probable mismatches.

Key rating weaknesses

Exposure to low and middle income segment with increasing proportion of LAP, SME and builder loans segment

DHFL has exposure to the lower and middle income group which is more prone to defaults in case of a stressed economic scenario. Further, the share of LAP, SME and builder loans increased to 39% of the outstanding loan book as on March 2018 from 34% as on March 2017 which is a relatively riskier segment.

Industry Prospects

HFC's are expected to maintain their good profitability on the basis of strong business growth and stable asset quality over the medium term. However, rising competition and the resultant possible dilution in credit underwriting norms, long term funding and asset quality are the key challenges for the sector. However, there are some industry concerns on the LAP book with many players witnessing substantial rise in the delinquency level.

Analytical approach: The rating of instruments of AFSL is based on the assessment of DHFL which has given 'Letter of Comfort' for these instruments. DHFL has been assessed on a standalone basis.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE Policy on Default Recognition
Rating Methodology- Housing Finance Companies
Financial ratios - Financial Sector
CARE's criteria on Short Term Instruments

About DHFL

Incorporated in 1984, DHFL is the third-largest housing finance company in India with total asset size of Rs.1,07,436 crore as on March 31, 2018. The company has a successful track record of over 30 years of lending in the low and middle income group in Tier II and Tier III cities, primarily to salaried individuals. DHFL had a loan portfolio of Rs.91,930 crore as on March 31, 2018. The company operates through a network of over 349 offices (incl. branches and service centres). DHFL also has international presence through representative offices located in London and Dubai which cater to the housing needs of non-resident Indians. Dewan Group also has presence in the housing finance business through its group companies, namely, Aadhar Housing Finance Private Limited. Furthermore, DHFL has presence in mutual fund business through DHFL Pramerica Asset Managers Private Limited

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total income	10,827	10,465
PAT	2,896	1,172
Interest coverage (times)	1.51	1.23
Total Assets	92,298	107,436
Net NPA (%)	0.58	0.56
ROTA (%)	3.62	1.17

A: Audited

About AHFL

Aadhar Housing Finance Limited (AHFL) is a housing finance company engaged in providing housing finance to the lower income segment of the society. AHFL was set up in May 2010 and commenced operations in February 2011. AHFL and DHFL Vysya Housing Finance are both subsidiaries of Wadhawan Global Capital. With effect from 27th October 2017, AHFL merged into DHFL Vysya and the later was renamed as AHFL. Majority of the shares of AHFL are held by Wadhawan Global Capital Limited-69.98% followed by International Finance Corporation holding 16.91% and DHFL holding 9.15%. After the merger, AHFL now spans across 18 states with around 270 branches with a loan book of Rs. 7352.7 Crore (as on March 31 2018).The company has a total employee base of 1742 and it sources its business through a network of Direct Selling Teams (DSTs) and Direct Selling Agents (DSAs).

Brief Financials (Rs. Crore)	FY17 (UA)	FY18 (A)
Total operating income	569	798
PAT	64	100
Loans outstanding	4,592	7,353
Interest coverage (times)	1.28	1.34
Total Assets	5,071	7,827
ROTA (%)	1.49	1.55
Net NPA (%)	0.84	0.78

UA: Un-audited; A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: As informed by DHFL to CARE Ratings, post delay in FD repayment incident of DHFL in May 2017, the company has successfully completed software migration process and has setup separate monitoring unit for fixed deposits processing and payments. Further, there has been no such incident reported during this period.

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debenture- Non Convertible Debenture#	-	-	-	3000	CARE AA+ (SO); Stable

#yet to be placed

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	90.72	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1) CARE AA+ (SO); Stable (21-Dec-17) 2)CARE AA+ (SO); Stable (12-Jul-17)	1)CARE AA+ (SO) (30-Dec-16) 2)CARE AA+ (SO) (15-Jul-16)	1)CARE AA+ (SO) (24-Sep-15) 2)CARE AA+ (SO) (24-Jul-15)
2.	Commercial Paper	ST	-	-	-	1)Withdrawn (19-Jan-18) 2)CAREA1+ (21-Dec-17) 3)CARE A1+ (12-Jul-17)	1)Provisional CARE A1+ (SO) (08-Jul-16)	1)Provisional CARE A1+ (SO) (24-Jul-15)
3.	Fund-based - LT-Term Loan	LT	94.65	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1)CARE AA+ (SO); Stable (21-Dec-17) 2)CARE AA+ (SO); Stable (12-Jul-17)	1)CARE AA+ (SO) (30-Dec-16) 2)CARE AA+ (SO) (15-Jul-16)	1)CARE AA+ (SO) (24-Sep-15) 2)CARE AA+ (SO) (24-Jul-15)
4.	Fund-based - LT-Term Loan	LT	11.99	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1)CARE AA+ (SO); Stable (21-Dec-17) 2)CARE AA+ (SO); Stable (12-Jul-17)	1)CARE AA+ (SO) (30-Dec-16) 2)CARE AA+ (SO) (15-Jul-16)	1)CARE AA+ (SO) (24-Sep-15) 2)CARE AA+ (SO) (24-Jul-15)
5.	Fund-based - LT-Term Loan	LT	134.45	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18) -	1) CARE AA+ (SO); Stable (21-Dec-17) 2)CARE AA+ (SO); Stable (12-Jul-17)	1)CARE AA+ (SO) (30-Dec-16) 2)CARE AA+ (SO) (15-Jul-16)	1)CARE AA+ (SO) (24-Sep-15) 2)CARE AA+ (SO) (24-Jul-15)
6.	Fund-based - LT-Term Loan	LT	3.75	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1) CARE AA+ (SO); Stable (21-Dec-17)	1)CARE AA+ (SO) (30-Dec-16)	1)CARE AA+ (SO) (24-Sep-15)

						2)CARE AA+ (SO); Stable (12-Jul-17)	2)CARE AA+ (SO) (15-Jul-16)	2)CARE AA+ (SO) (24-Jul-15)
7.	Fund-based - LT-Term Loan	LT	218.73	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1) CARE AA+ (SO); Stable (21-Dec-17) 2)CARE AA+ (SO); Stable (12-Jul-17)	1)CARE AA+ (SO) (30-Dec-16) 2)CARE AA+ (SO) (15-Jul-16)	1)CARE AA+ (SO) (24-Sep-15) 2)CARE AA+ (SO) (24-Jul-15) 3)CARE AA+ (SO) (In Principle) (15-Apr-15)
8.	Fund-based - LT-Term Loan	LT	25.36	-	-	1)Withdrawn (19-Jan-18) 2) CARE AA-; Stable (21-Dec-17) 3)CARE AA-; Stable (12-Jul-17)	1)CARE AA-; Stable (30-Dec-16) 2)CARE AA- (15-Jul-16)	1)CARE AA- (24-Sep-15) 2)CARE AA- (24-Jul-15) 3)CARE AA- (14-Apr-15)
9.	Fund-based - LT-Term Loan	LT	225.00	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1) Provisional CARE AA+ (SO); Stable (21-Dec-17) 2)Provisional CARE AA+ (SO); Stable (12-Jul-17)	1)Provisional CARE AA+ (SO) (30-Dec-16) 2)Provisional CARE AA+ (SO) (15-Jul-16) 3)Provisional CARE AA+ (SO) (12-Apr-16)	1)Provisional CARE AA+ (SO) (24-Sep-15) 2)Provisional CARE AA+ (SO) (24-Jul-15)
10.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1) CARE AA+ (SO); Stable (21-Dec-17) 2)CARE AA+ (SO); Stable (12-Jul-17)	1)CARE AA+ (SO) (08-Jul-16)	1)CARE AA+ (SO) (09-Mar-16) 2)Provisional CARE AA+ (SO) (21-Jan-16)
11.	Fund-based - LT-Term Loan	LT	157.34	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1) CARE AA+ (SO); Stable (21-Dec-17) 2)CARE AA+ (SO); Stable (12-Jul-17)	1)CARE AA+ (SO) (30-Dec-16) 2)CARE AA+ (SO) (15-Jul-16) 3)CARE AA+ (SO) (12-Apr-16)	-
12.	Fund-based - LT-Term Loan	LT	336.36	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1)CARE AA+ (SO); Stable (21-Dec-17) 2)CARE AA+ (SO); Stable (12-Jul-17)	1)CARE AA+ (SO) (07-Mar-17)	-
13.	Debentures-Non	LT	200.00	CARE AA+ (SO);	1) CARE AA+	1) CARE AA+	-	-

	Convertible Debentures			Stable	(SO); Stable (06-Jul-18)	(SO); Stable (21-Dec-17) 2)Provisional CARE AA+ (SO); Stable (14-Jul-17)		
14.	Debentures-Non Convertible Debentures	LT	1400.00	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1) CARE AA+ (SO); Stable (21-Dec-17)	-	-
15.	Debt-Subordinate Debt	LT	150.00	CARE AA (SO); Stable	1) CARE AA (SO); Stable (06-Jul-18)	1)CARE AA+ (SO); Stable (21-Dec-17)	-	-
16.	Fund-based - LT-Term Loan	LT	2701.65	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1)CARE AA+ (SO); Stable (21-Dec-17)	-	-
17	Debentures-Non Convertible Debentures	LT	3000	CARE AA+ (SO); Stable	-	-	-	-

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