Aadhar Housing Finance Limited

(erstwhile DHFL Vysya Housing Finance Limited)

December 04, 2018

Ratings

Instrument	Amount (Rs. Crore)	Rating*	Remarks
Proposed Non-Convertible Debenture	500	**CARE AA; Stable [Double A; Outlook:Stable]**	**Assigned**
Total	**500 (Rs. Five Hundred crore only)**		

**Details of instruments/facilities in Annexure I*

Detailed Rationale & Key Rating Drivers

The rating takes into consideration the significant experience of the promoter group of Aadhar Housing Finance Limited (AHFL) in the housing finance segment, through presence of the group's flagship company Dewan Housing Finance Limited (DHFL; rated 'CARE AAA; Stable', 'CARE A1+'), which has an established presence of 30 years in the business. AHFL is a strategically important business for the group and is expected to benefit from the group's financial flexibility. The rating further factors in AHFL's experienced management team, growth in the loan portfolio with maintenance of healthy profitability, diversified geographical presence, moderate track record with moderate seasoning of the portfolio and comfortable asset quality. The rating remains constrained due to the moderate gearing and capitalization levels and the vulnerability to economic downturn of the target borrower segment comprised of lower income group. Continued promoter holding and support, improvement in capital adequacy levels, business growth, profitability and asset quality are the key rating sensitivities.

Detailed description of the key rating drivers

<u>Key Rating Strengths</u>

Experienced Promoters in the housing finance sector

AHFL is a housing finance company registered with the National Housing Bank (NHB) and was incorporated with equity participation from DHFL and its promoters and International Finance Corporation (IFC). The promoters of DHFL along with DHFL hold equity stake of 81% in AHFL; IFC holds 17% while ICICI Bank holds 2% as on March 31, 2018.

DHFL, its sister concern, has a track record of more than 30 years in the housing finance business. DHFL, since inception, has been focusing on niche market segment of low and middle income group and over the years has established its leadership in serving the segment. It is the third largest housing finance company in India with total asset size of Rs.1,07,572 crore as on March 31, 2018. The company operates through a domestic network of 349 offices. Around 61% of DHFL's loan portfolio as on March 31, 2018, was from western India, 24% from northern, eastern and central India with remaining 15% being from southern India.

Experienced management

Mr. Kapil Wadhawan (Chairman & Managing Director of DHFL) is the Founder director of AHFL. He has a vast experience of more than 20 years in Corporate Business Management and Administration. The operations of the company are led by Mr. Deo Tripathi (MD & CEO) who has vast experience of 40 years in the financial services sector in companies such as Union Bank of India and DHFL. Mr. Anmol Gupta is the CFO of AHFL. Mr. Gupta is a Chartered Accountant from Institute of Chartered Accountant, Delhi. He has overall experience of over 20 years and has worked with companies like Deutsche Postbank Home Finance and BHW Home Finance.

Good growth in loan portfolio and profitability

AHFL's (post-merger) loan portfolio increased 60% on a y-o-y basis to Rs.7,353 crore as on March 31, 2018 from Rs.4,592 crore as on March 31,2017 (of which Rs.2,783 crore of AHFL and Rs. 1810 crore of DHFL Vysya). The loan portfolio stood at Rs.8,716 crore as on September 30, 2018. Of the total loan portfolio in FY18, home loans comprised 83%, LAP accounted for 15% and the remaining 2% being exposure towards developers. Expansion in business operations and growth in loan book has resulted in total income rising 40% to Rs.798 crore in FY18. Operating expenses as percentage of adjusted assets increased to 1.81% in FY18 from 1.64% in FY17 due to the integration of DHFL Vysya with AHFL processing system. Net interest margin and ROTA stood at 3.77% (FY17: 4.84%) and 1.55% (FY17: 1.49%), respectively.

Diversified geographical presence

Post-Merger, AHFL has a diversified presence across India. Earlier, AHFL had presence in the North, West and East India whereas DHFL Vysya had strong presence in South India. Post the merger, AHFL's geographic presence has diversified with Central India comprising of 34% of the total loan outstanding followed by Southern India at 26%, Western India at

25%, North India at 11% and Eastern India at 5%. The top 5 states as per the loan outstanding in FY18 are Uttar Pradesh (15%), Maharashtra (15%), Madhya Pradesh (14%), Gujarat (9%) and Rajasthan (8%).

Moderate track record and seasoning of the portfolio

AHFL commenced operations in 2011 and DHFL Vysya commenced in 1990. However, the growth in portfolio of DHFL Vysya has been slower as compared to AHFL. Prior to merger, both the entities had similar size of portfolio which indicated that AHFL has grown at faster pace with moderate seasoning of the portfolio.

Both the entities have created good presence in the markets in which they have been operating over the years. DHFL Vysya has strong presence in Southern India and AHFL in Western and Northern India.

Comfortable asset quality

The asset quality of AHFL has remained comfortable. The Gross NPA % of loans outstanding stood at 1.17% and Net NPA at 0.78% as on March 31, 2018 which reduced from that as on March 31, 2017 where the Gross NPA% of loans outstanding was 1.33%, Net NPA 0.84%. The Gross NPA% of loan outstanding and Net NPA stood at 1.04% and 0.76% respectively as on September 30, 2018. The project loans under the housing loans category witnessed higher delinquencies; however, the company has reduced its exposure towards project loans in FY18.

Moderate liquidity profile

The liquidity profile of the AHFL as on September 30, 2018 was moderate with negative cumulative mismatches for one year time bracket. However, AHFL has Rs.800 crore of unutilized bank lines as on October 30, 2018 to take care of the liquidity mismatches. Total borrowings of AHFL was Rs. 8857 crore as on September 30, 2018 out of which CP borrowings consist of Rs.490 crore. As on November 30, 2018, the CP outstanding of AHFL stands at Rs.125 crore and the Cash and Bank Balance stands at Rs. 40 crore, Investments in mutual funds at Rs. 100 crore and Fixed deposits at Rs.200 crore.

Key rating weakness

Moderate gearing and capitalization levels

The gearing of the company stood at 9.06 times as on March 31 2018 with Tangible Net Worth at Rs.699 crore. The Capital Adequacy Ratio (CAR) stood at 18.76% (Tier I CAR: 16.23%) as on March 31, 2018. (March 31, 2017: Total CAR of 19.37%, Tier I CAR: 18.41%).

Target customer segment comprises low income group, which may be vulnerable to economic downturns

The target segment of AHFL is low income group which may be vulnerable to economic downturns, consequently impacting the asset quality. However, strong credit appraisal processes and policies and experience of the promoter group in the segment provide comfort.

Prospects

In the past, healthy portfolio growth, stable margins and operating efficiencies as well as low credit costs have contributed to healthy profitability parameters of HFCs. While some of the players are witnessing rising NPA levels in their loans against property (LAP) and non-housing loans portfolio; the fact that individual housing loans (excluding LAP) account for bulk of the total mortgage finance portfolios of HFCs, the overall delinquencies are still low. Given the potential in the housing segment especially affordable housing, the growth in this segment is expected to be healthy in the medium term.

Analytical approach: Standalone approach along with factoring in group support.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Non Banking Financial Companies
Financial ratios – Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company

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:

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
Proposed Non-Convertible Debenture	-	-	-	500	CARE AA; Stable

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) 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)
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 Convertible Debentures	LT	200.00	CARE AA+ (SO); Stable	1) CARE AA+ (SO); Stable (06-Jul-18)	1) CARE AA+ (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	3401.65	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	1)CARE AA+ (SO); Stable (09-Jul-18)	-	-	-
18	Fund-based – Long Term	LT	2090	CARE AA; Stable	1)CARE AA+ (SO); Stable (27-Jul-18)	-	-	-
19	Debentures-Non Convertible Debentures	LT	500	CARE AA; Stable	-	-	-	-

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