

Akme Star Housing Finance Ltd.

December 12, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	30	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Total facilities	30 (Rs. Thirty crore only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Akme Star Housing Finance Ltd. is constrained due to relatively small scale of its operations, geographical concentration of operations, concentrated resource base, low seasoning of portfolio, exposure to cyclical real estate sector and high exposure to relatively risky self-employed segment.

The rating, however, factors in the experience of the promoters in the financial sector along-with strong group support, comfortable capital adequacy with low leverage, diversified product and customer profile with low LTV ratio, moderate asset quality and profitability, comfortable liquidity profile and adequate internal control and MIS system.

The ability of the company to increase its scale of operations and profitability while maintaining capital adequacy and improving asset quality along-with geographical diversification of portfolio and expansion of resource base would be the key rating sensitivities.

Detailed description of the key rating drivers**Key rating weaknesses**

Small, albeit growing scale of operations: The size of operations of ASHFL though improved remained small marked by its outstanding loan portfolio which has increased by 30.69% to Rs.20.27 crore as on March 31, 2017 mainly on account of growth in disbursement by 9.53%. Further, the company's total operating income grew by 25% to Rs.3.40 crore in FY17 due to growth in loan portfolio in the last two years.

Geographical concentration of the portfolio: ASHFL has entire portfolio concentrated in Rajasthan in which it operates through a network of 21 branches. As of June 30, 2017, 100% of the loan book was concentrated in Rajasthan. Further, the company is in the process of expanding its operations within Rajasthan as well as to Madhya Pradesh.

Concentrated resource base: Currently, ASHFL enjoys bank facilities from two banks only. Further, ASHFL is in process to raise funds from different Banks and Financial institutions. Going forward, additional bank limits for funding portfolio would be crucial.

Exposure to cyclical real estate sector: As on March 31, 2017, the company's outstanding loans to builders were Rs.9.18 crore as against Rs.4.49 crore as on March 31, 2016, which formed around 45%, of its outstanding loan portfolio (28.95% as on March 31, 2016). Owing to this exposure to the real estate industry which is cyclical in nature, the company is exposed to collection risk. However, ASHFL has done disbursement to the real estate sector in the LTV ratio of 40-50% which limits the risk to a certain extent.

High exposure to relatively risky self-employed segment and unseasoned portfolio: ASHFL is primarily lending towards the housing finance needs of the self-employed segment of customers in the lower to middle income category, which is un-serviced by banking sector, at high rates of interest. Loans to self-employed segment constituted 96% of the total outstanding portfolio as on June 30, 2017. Further, as majority of the portfolio has been built recently, the same is unseasoned.

Key Rating strengths

Experienced promoters and strong group support: The promoters, Mr. Nirmal Jain and his family members have an experience of over two decades in various lines of business including asset financing through various entities. The promoters have been instrumental in driving the growth of ASHFL since its inception. The company gets support from its group companies in terms of utilizing their branch network for generating business and recovery.

Comfortable capital adequacy levels with low leverage: Overall gearing has though deteriorated from 0.08 times as on March 31, 2016 to 0.37 times as on March 31, 2017 on account of increase in debt for expanding its portfolio but

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

remained comfortable. Further, overall gearing has deteriorated to 0.52 times as on June 30, 2017. ASHFL has reported comfortable level of capital adequacy ratio (CAR) at 109% as on March 31, 2017 as against 114.35% as on March 31, 2016 as the company is yet to leverage its equity.

Diversified product and customer profile with low LTV Ratio: The company's product profile is diversified as it offers housing loans as well as mortgage loans. Further, the customer profile of the company is also diversified marked by salaried, self-employed and builders. The company reduces its risk by maintaining low LTV ratio which was on an average 50-55%.

Moderate asset quality and profitability: The asset quality of the company continued to remain moderate. Gross NPA% has improved to 1.56% as on March 31, 2017 from 2.09% as on March 31, 2016 despite one-time impact of demonetization during November, 2016. ROTA has also improved to 6.53% during FY17 as compared to 6.33% during FY16 mainly due to better operating efficiency.

Comfortable Liquidity Profile: Given that the borrowings of most HFCs are of shorter tenure in comparison to the loan portfolio, asset-liability mismatches are inherent in the housing finance business. However, majority of the housing loan book of ASHFL being funded by Net-worth, coupled with a 5 year average lending period against a 5 year borrowing tenor has rendered the liquidity profile of the company comfortable. Further, ASHFL's majority of the loan portfolio funded through Net-worth as it constitutes around 72% of the total liabilities.

Industry Outlook: In the past few years, both National Housing Board (NHB) and the government have announced regulatory changes specifically for the affordable housing segment. The revision of risk weights for housing loans, the grant of infrastructure status to the affordable housing segment in Budget 2017, and the "Credit Linked Subsidy Scheme" (CLSS) under the Pradhan Mantri Awas Yojana (PMAY) are expected to help spur demand and lower the cost of funding which are expected to provide impetus to the affordable housing segment. Going forward, affordable housing segment is expected to be the major driver of growth for housing finance companies.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Housing Finance Company](#)

[Financial Sector Ratios](#)

About the Company

Akme Star Housing Finance Ltd. (ASHFL) is a Udaipur-based small-sized housing finance company primarily engaged in the financing of housing loans. ASHFL commenced operations from September, 2009 after getting registered with National Housing Bank. Initially, the company was incorporated as Akme Buildhome Pvt. Ltd. on March 17, 2005. Subsequently, the name of the company was changed to Akme Star Housing Finance Pvt. Ltd. in October, 2009 and its constitution was changed to public limited and name was changed to ASHFL in November, 2009.

ASHFL is a part of Udaipur-based 'Akme Group'. Apart from housing finance, the promoter group is also involved in vehicle financing and loan against property through its group companies, viz., Akme Fintrade (I) Ltd. (AFIL, *rated CARE BBB-; Stable*) and Akme Fincon Ltd. (AFL, *CARE BB+; Stable*) apart from real estate activities and automobile dealership through other entities of the Group. The company utilizes the branch network of its group companies for generating business and recovery while the portfolio is managed from their Head office at Udaipur. Further, the group entities have made investments in each other.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2.72	3.40
PAT	1.16	1.41
Interest coverage (times)	6.91	5.77
Total Assets	18.14	24.97
Net NPA (%)	1.67	1.07
ROTA (%)	6.33	6.53

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: None

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Fund-based - LT-Term Loan	-	-	September, 2022	24.00	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE BB+; 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	5.00	Suspended	-	-	-	1)Suspended (30-Mar-15)
2.	Fund-based - LT-Term Loan	LT	24.00	CARE BB+; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	6.00	CARE BB+; Stable	-	-	-	-

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