India Home Loan Limited

June 26, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures	50.00 (Rupees Fifty crore only)	**CARE BBB-; Negative (Triple B minus; Outlook: Negative)**	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Non-Convertible Debentures (NCD) of India Home Loan Limited (IHLL) factors in the resourcefulness of the promoters and investment by institutional investor, adequate capitalization with increase in leverage with growth in loan portfolio and average profitability.

The rating is constrained by nascent stage of operations and unseasoned loan portfolio, moderate asset quality on account of majority customers being in affordable housing segment having higher susceptibility to economic changes, moderate liquidity profile, geographical and builder loan portfolio concentration. Capitalization, growth in business while maintaining profitability, liquidity and asset quality are the key rating sensitivities.

Outlook: Negative

The 'Negative' outlook is on account of moderation in the liquidity profile of the company requiring the company to rely on refinance along with increase in leverage to grow its loan portfolio and moderation in asset quality.

The outlook may be revised to 'Stable' if the company is able to raise resources as the company envisages to help its liquidity profile and grow its loan portfolio with improvement in asset quality.

The ratings may be revised downwards in case the company is unable to raise resources as envisaged impacting the ability of the company to grow its loan book and impacting the profitability as well as deterioration in asset quality in the near term.

Rating Sensitivities

Positive Factors

- Raising of resources to help the liquidity profile of the company
- Improvement in asset quality with Gross NPA ratio less than 2%, going forward
- Improvement in profitability with ROTA above 2.5% on a sustained basis, going forward
- Significant amount of capital infusion which would help the leverage and liquidity of the company helping the company scale up business

Negative Factors

- Deterioration in asset quality with Gross NPA ratio above 5%, going forward
- Deterioration in capitalisation levels with overall gearing in excess of 5x, going forward
- Deterioration in profitability with rise in interest and credit costs on sustained basis
- Deterioration in liquidity profile of the company with constraints on raising funds

The spread of the COVID-19 pandemic has led to a nation-wide lockdown which is likely to impact the overall growth and collections of NBFCs/HFCs sector. As a result, in CARE's view the credit risk profile of NBFCs/HFCs is expected to deteriorate over the medium term. Liquidity profile, resource raising ability, funding support from parent/group and exposure to vulnerable asset classes and operating profiles in terms of geographies and borrower types would be critical monitorable factors in the NBFCs/HFCs sector.

CARE Ratings will continue to assess on the impact on the key business and financial parameters of NBFCs/HFCs sector and shall take appropriate rating actions if needed.

Detailed description of the key rating drivers

Key Rating Strengths

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Presence of resourceful promoters and strong investment by institutional investors

The company is promoted by Mr. Mahesh Pujara who is the Chairman and Managing Director (CMD) of the company. The promoters held 38.38% shareholding in the company as on December 31, 2019 while JM Financial India Trust II-JM Financial India Fund II (AIF fund sponsored by JM Financial Limited) held 24.50% of the shareholding. Mr. Mahesh Pujara has 35 years of experience in financial services industry including over 9 years in affordable housing finance. He is accompanied by his son Mr. Mitesh Pujara, (Executive Director), has over 25 years of experience in financial sector.

Adequate capitalisation with increasing gearing levels

Given the nascent stage of company's operations, IHLL has adequate capitalization with capital adequacy ratio (CAR) of 39.45% (Tier I CAR: 28.14%) as on March 31, 2019 as compared to CAR of 29.67% (Tier I CAR: 29.18%) as on March 31, 2018. The overall gearing of the company stood at 5.01 times as on March 31, 2019 as compared to 4.66 times as on March 31, 2018. The company's loan portfolio increased from Rs.178 crore as on March 31, 2018 to Rs.238 crore as on September 30, 2018 and declined to Rs.219 crore as on March 31, 2019, partly on account of PMAY subsidy of Rs.25.45 crore received in March, 2019.

During 9MFY20 (refers to period from April 01 to December 31), with slowdown in business, the company went slow on disbursements and did not raise additional debt. As result, the total borrowings declined to Rs.178 crore as on December 31, 2019.

During FY19 (refers to period from April 01 to March 31), the company issued 16 lakh warrants convertible to equity to group of investors which includes promoters, JM Financial India Fund II and others, aggregating to Rs.12.28 crore out of which it received Rs.3.07 crore in March, 2019. The balance Rs.9.21 crore is convertible within 18 months of issue of warrants.

The company plans to maintain long term overall gearing in below 5x and now has planned equity infusion of Rs.12.28 crore through issue of warrants which will help the company maintain it.

Average profitability

The company saw increase in loan portfolio from Rs.178 crore as on Mar.31, 2018 to Rs.238 crore as on Sep.30, 2018. However, post that the company went slow on disbursements due to tightened liquidity conditions and rise in cost of borrowings. Further, the company received Credit Linked Subsidy (CLSS) in March, 2019 resulting in the loan portfolio declining to Rs.219 crore as on Mar.31, 2019. The interest income of the company grew from Rs.16.39 crore in FY18 to Rs.33.07 crore in FY19, however, the interest expenses increased significantly from Rs.6.92 crore for FY18 to Rs.21.77 crore for FY19 resulting in operating profit at similar level of Rs.4.72 crore (PY: Rs.4.76 crore) for FY19. The company saw increase in credit costs resulting the company reporting PAT of Rs.2.58 crore for FY19 as compared to PAT of Rs.2.96 crore for FY18. The company saw significant decline in disbursements during 9MFY20 resulting in decline in profit. The company reported PAT of Rs.1.16 crore on total income of Rs.24.31 crore during the period.

Key Rating Weaknesses

Unseasoned portfolio

Although IHLL has been disbursing loans from January 2010, majority of the disbursements took place in the last 2 to 3 years and hence has limited portfolio seasoning. The company has seen net loan portfolio increasing drastically from Rs.31.59 crore as on March 31, 2016 to 218.60 crore as on March 31, 2019. The company's asset quality performance through different economic cycles and geographies is yet to be established.

Deteriorating asset quality considering weaker credit profile of the target segment

The company saw deterioration in asset quality parameters with rise in slippages during Q4FY19. Rise in slippages coupled with de-growth in loan portfolio resulted in increase in the NPA ratios as on March 31, 2019 with the Gross NPA Ratio of 4.04% and Net NPA Ratio of 3.25% vis-à-vis Gross NPA Ratio of 2.82% and Net NPA Ratio of 2.25% as on December 31, 2018. As on December 31, 2019 Gross NPA ratio stood at 4.28% and Net NPA ratio stood at 2.98% on account of additional slippages and net NPA to net worth ratio of 17.02%. The Gross NPA ratio in the housing loan portfolio stood at 3.83% while that in LAP portfolio stood at 0.45% while nil in builder loan portfolio.

Relatively weaker credit profile of the target segment

IHLL is primarily catering to the housing finance needs of the self-employed customers in the informal low and middle income segment who are not serviced by the banking sector. The proportion of Self Employed customers accounted for 80% of the IHLL's loan portfolio as on March 31, 2019. Since this segment is highly susceptible to the impact of economic downturn, asset quality remains to be the key monitorable. The Gross NPA has increased from Rs.4.43 crore as on March 31, 2018 to Rs.8.83 crore as on March 31, 2019 partly on account of decline in loan book post receipt of subsidy under

PMAY scheme. The delinquency levels are expected to be significantly higher in the self-employed low income borrower category vis-à-vis the traditionally low delinquency levels observed in the salaried segment. Hence, HFCs catering to this segment would need to follow stricter underwriting standards and appropriately price the risk.

Geographical concentration

Though the company has presence in three states, it faces geographical concentration with 82.34% loan portfolio coming from Gujarat. As on December 31, 2019 the loan portfolio of the company is spread across three states viz. Maharashtra (16.44% of the o/s portfolio), Gujarat (82.34% of the o/s portfolio) and Rajasthan (1.22% of the o/s portfolio). Going forward, the company plans to expand its operations in Maharashtra and Rajasthan in order to mitigate geographical concentration risk to some extent.

Analytical approach: Standalone

Applicable Criteria

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

Liquidity: Adequate

The company has debt obligations of about Rs.45.67 crore from June, 2020 to April, 2020, post considering the moratorium adjustments. The company has loan receivables to the tune of Rs.28.99 crore uptil March 31, 2021. Thus, the company has reliance on refinance for maintaining liquidity profile. As refinance assistance from NHB, the company received Rs.10 crore in Q4FY20 and Rs.10 crore in April, 2020. The company also received additional Rs.5 crore in May, 2020, which would help the liquidity profile of the company in the near term.

As on June 22, 2020, the company has cash and liquid investments of Rs.8.02 crore. The company plans to raise additional funds to refinance its debt as well as grow its loan portfolio and timely raising of debt would be a key rating factor for the company.

About the Company

IHLL was originally incorporated as 'Manoj Housing Finance Co. Ltd.' in 1990. New management under the leadership of Mr. Mahesh Pujara (having significant experience in the equity capital markets and real estate business over the last 25 years) took over the business of the loss making company in FY09 (refers to the period April 01 to March 31) and renamed the company as 'India Home Loan Limited'. IHLL operates through its head office in Mumbai and a central branch in Ahmedabad and has 10 spoke branches in Maharashtra, Gujarat and Rajasthan. The company is present in the affordable housing loan segment in the states of Gujarat, Maharashtra and Rajasthan with a loan portfolio of Rs.245.08 crore as on December 31, 2018. The company also provides loan against property (LAP) & builder/developer loans. Company's staff strength as on December 31, 2018 was 74.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total income	16.70	33.59
PAT (after share of profit and minority interest)	2.96	2.58
Gearing (times)	4.66	5.01
Total Assets (adjusted for Intangible assets)	192.24	238.09
Gross NPA (%)	2.49	4.04
ROTA (%)	2.48	1.20

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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
Non-Convertible Debentures	-	-	-	-	CARE BBB-; Negative

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	200.00	CARE BBB-; Negative	1) CARE BBB-; Negative (07-Apr-20)	1) CARE BBB-; Stable (01-Apr-19)	1)CARE BBB-; Stable (15-May-18)	1)CARE BBB-; Stable (21-Mar-18) 2)CARE BBB-; Stable (29-Aug-17) 3)CARE BBB-; Stable (03-Apr-17)
2.	Non-Convertible Debentures	LT	50.00	CARE BBB-; Negative	-	-	-	-

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.*

Contact us

Media Contact
Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID- mradul.mishra@careratings.com

Analyst Contact 1
Mr. Aditya Acharekar
Contact no.: 022-6754 3528
Email ID- aditya.acharekar@careratings.com

Analyst Contact 2
Mr. Sanjay Kumar Agarwal
Contact no. : (022) 6754 3500 / 582
Email ID- sanjay.agarwal@careratings.com

Business Development Contact
Mr. Ankur Sachdeva
Contact no. : 91 98196 98985
Email ID- ankur.sachdeva@careratings.com

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