

Press Release

AKME Star Housing Finance Limited (ASHFL)

November 21, 2018

Rating Reaffirmed



Total Bank Facilities Rated	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed)

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 50 Cr. bank facilities of AKME Star Housing Finance Limited (ASHFL). The outlook is '**Stable**'.

ASHFL is a Udaipur, Rajasthan, based housing finance company (HFC) engaged in offering housing loans, builder financing and loan against property. Incorporated in 2005, the company has presence majorly in Rajasthan.

ASHFL is a part of the AKME group which is having presence of over two decades in financial services and real estate sectors. AKME group primarily comprises of three companies - AKME Star Housing Finance Limited, AKME Fintrade (India) Limited (AFIL) and AKME Fincon Limited (AFL). The group is promoted by Mr. Nirmal Jain, Mr. Anil Kumar Jain, and Mr. Mohan Lal Nagda and family. The group is into loan against property, financing of two wheelers, three / four wheelers, and commercial vehicles, housing loans and also builder financing.

Analytical Approach:

Acuité has taken a consolidated view on the business and financial risk profile of AKME Star Housing Finance Limited, AKME Fintrade (India) Limited (AFIL) and AKME Fincon Limited (AFL) together referred to as the 'AKME Group'. The consolidation is in view of the common management, shared brand, and strong business, operational and financial synergies between the group companies. Extent of Consolidation : Full

List of key rating drivers and their detailed description:

Strengths:

• Established track record to support scale-up of operations

AKME group has an established track record with a strong presence in Rajasthan, especially Udaipur. The promoters have more than three decades of experience in the financial services industry. They are supported by seasoned second line management.

AKME group entered financial services sector in 1994 with AKME Fincon Limited (NBFC) and has gradually expanded its operations through group companies, AKME Fintrade Limited (a deposit taking NBFC) and AKME Star Housing Finance Limited (HFC). The group largely operates in Rajasthan and has expanded to Maharashtra, Madhya Pradesh and Gujarat.

AKME group's loan book has grown sharply in FY 2018; the loan book was at Rs. 542 Cr. as on September 30, 2018 as against Rs. 203 Cr. as on March 31, 2017. AKME Fincon Limited's loan portfolio has grown to Rs. 59 Cr. as on September 30, 2018 from Rs. 40 Cr. as on March 31, 2017. AKME Fintrade Limited's loan portfolio has grown to Rs. 426 Cr. as on September 30, 2018 (Rs.

143 Cr. as on March 31, 2017) and AKME Star Housing Private Limited's loan portfolio has grown to Rs. 58 Cr. as on September 30, 2018 (Rs. 20 Cr. as on March 31, 2017). On a consolidated basis, loan against property constituted 51 percent of the loan portfolio as on June 30, 2018. Two wheeler, three/four wheeler and commercial vehicle financing constituted 35 percent, 4 percent, and 0.1 percent, respectively. Home loans and loans to builders constituted 5 percent and 5 percent, respectively.

Acuité believes that AKME group will continue to benefit from its established presence in the financial services industry along with the experienced promoters. This will enable the group to maintain strong growth momentum over the medium term across various products and help steadily scale-up the operations.

• Comfortable capitalisation

AKME group's networth was at Rs. 106.41 Cr. as on 31 March 2018 as compared to Rs. 68.44 Cr. as on 31 March 2017. The increase in networth was supported by equity infusion of Rs. 21.83 Cr. in FY 2018. The group's capitalisation is comfortable; AKME Fincon Limited reported capital adequacy ratio (CAR) of 30.75 percent as on June 30, 2018, AKME Fintrade Limited reported CAR of 20.01 percent as on June 30, 2018 and AKME Star Housing Finance Limited reported CAR of 65.32 percent as on June 30, 2018.

The group's gearing increased to 3.74 times as on March 31, 2018 from 2.41 times as on March 31, 2017 with the increase in the scale of operations. The group's gearing is expected to remain around 5 times over the medium term and thus support the group's capitalisation.

The group's capitalisation is supported by steady accruals to net worth and regular capital infusion from the promoters. The promoters have infused Rs. 33.71 Cr of equity capital over the past three years. Additionally, the promoters are planning to bring in an external investor in AKME Fintrade Limited to support the strong growth plans over the medium term and will remain a key monitorable.

Acuité believes that the group's comfortable capitalization will support its growth plans over the medium term and also provide for asset side risks.

• Healthy asset quality and profitability

AKME group has stringent underwriting standards and proactive portfolio monitoring and recovery practices which supports its asset quality. The group has a strong presence in Rajasthan and has built a good understanding of the customer risk profile which enables the group to maintain healthy asset quality. AKME Fincon Limited, AKME Fintrade Limited and AKME Star Housing Finance Limited reported low gross non-performing assets (NPAs) ratio of 2.28 percent, 1.68 percent and 1.45 percent, respectively, as on September 30, 2018. Further the group demonstrated an average collection efficiency of ~96 percent in the six months ended June 30, 2018 which supports its asset quality. Given the strong growth in the group's loan portfolio over the past one year, the impact of seasoning in the loan book will be visible over the next few quarters.

The group primarily focuses on financing secured high yield assets to self-employed customers with limited banking activities which supports its profitability. The group reported a healthy return on average assets (RoAA) of 4.35 percent in FY2018 as compared to 2.86 percent in FY2017.

The group reported healthy net interest margin of 10.10 percent for FY2018 as compared to 9.62 percent in FY2017 supported by the high interest yields. The profitability has also been supported by sharp decline in operating expenses to earning assets ratio to 2.13 percent in FY2018 compared to 3.51 percent in FY2017 with the increase in the scale of operations.

Acuité believes that the group's ability to maintain healthy asset quality and profitability metrics with the increase in the scale of operations will remain a key monitorable.

Weakness

• Concentrated geographical presence

AKME group has high geographical concentration as majority of its operational presence is in Rajasthan. Rajasthan constituted around 82 percent of the loan book as on June 30, 2018. Occurrence of events such as slowdown in economic activity or any major natural calamity in the state or shifting of industrial activity to other geographies could impact the cash flows of the borrowers thereby impacting credit profile of the group's borrowers. Any significant slowdown in business activity or deterioration in asset quality and profitability will adversely impact the group's credit risk profile. While the group has expanded its operations to Gujarat, Madhya Pradesh and Maharashtra, Rajasthan will continue to constitute significant proportion of the book over the medium term.

Acuité believes that the group will continue to face geographical concentration risk and its impact on the group's performance will remain a key monitorable.

Liquidity position:

The Company had adequately matched asset liability profile as on September 30, 2018 with positive cumulative mismatch in all maturity buckets upto 1 year. Further, the liquidity profile is supported by unutilised bank lines of Rs. 5.77 crore to meet business need or in case of any mismatches.

Outlook: Stable

Acuité believes that AKME group will maintain a 'Stable' risk profile on account of the experienced management, steady scale up of the operations, and comfortable capitalisation. The outlook may be revised to 'Positive' in case of significant growth in the loan portfolio while maintaining asset quality and profitability. The outlook may be revised to 'Negative' in case of significant deterioration in asset quality or moderation in profitability or stretch in liquidity profile.

About the Group - Key Financials (Consolidated)

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	512.16	237.97	148.86
Total Income*	Rs. Cr.	34.58	16.77	11.57
PAT	Rs. Cr.	16.30	5.53	3.87
Net Worth	Rs. Cr.	106.41	68.44	53.64
Return on Average Assets (RoAA)	(%)	4.35	2.86	2.94
Return on Average Net Worth (RoNW)	(%)	18.65	9.05	7.69
Total Debt/Tangible Net Worth (Gearing)	Times	3.74	2.41	1.71
Gross NPA				
AKME Fincon Limited	(%)	2.3	2.5	2.6
AKME Fintrade Limited	(%)	1.7	1.7	1.7
AKME Star Housing Limited	(%)	1.2	1.6	2.1
Net NPA				
AKME Fincon Limited	(%)	1.9	2.1	2.2
AKME Fintrade Limited	(%)	1.5	1.4	1.4
AKME Star Housing Limited	(%)	1.0	1.1	1.7

*Total income equals to Net interest income plus other income

About the Rated Entity- Key Financials (Standalone)

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	54.30	24.97	18.14
Total Income*	Rs. Cr.	5.35	2.96	2.45
PAT	Rs. Cr.	2.90	1.41	1.16
Net Worth	Rs. Cr.	23.08	17.95	16.54
Return on Average Assets (RoAA)	(%)	7.32	6.53	6.33
Return on Average Net Worth (RoNW)	(%)	14.15	8.16	7.24
Total Debt/Tangible Net Worth (Gearing)	Times	1.28	0.37	0.08
Gross NPA	(%)	1.2	1.6	2.1
Net NPA	(%)	1.0	1.1	1.7

*Total income equals to Net interest income plus other income

Any other information

Not Applicable

Applicable Criteria

- Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of companies: <https://www.acuite.in/view-rating-criteria-22.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
March 13, 2018	Term Loan	Long Term	6.29	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	4.75	ACUITE BBB-/Stable (Assigned)
	Proposed Facility	Long Term	32.96	ACUITE BBB-/Stable (Upgraded from BB+)
	Cash Credit	Long Term	3.00	ACUITE BBB-/Stable (upgraded from BB+)
	Cash Credit	Long Term	3.00	ACUITE BBB-/Stable (Assigned)
December 11, 2018	Cash Credit	Long Term	3.00	ACUITE BB+ (Indicative)
	Proposed Working Capital Demand Loan	Long Term	2.00	ACUITE BB+ (Indicative)
September 14, 2016	Cash Credit	Long Term	3.00	ACUITE BB+/Stable (Assigned)
	Proposed Working Capital Demand Loan	Long Term	2.00	ACUITE BB+/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	NA	NA	NA	6.29	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	NA	NA	NA	4.75	ACUITE BBB-/Stable (Reaffirmed)
Proposed Facility	NA	NA	NA	32.96	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	NA	NA	NA	3.00	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	NA	NA	NA	3.00	ACUITE BBB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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