

Press Release

AKME Star Housing Finance Limited

October 30, 2019



Rating Assigned and Reaffirmed

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB-/Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB- (read as ACUITE triple B minus)**' on the Rs.19.81 Cr. bank facilities and assigned the rating of '**ACUITE BBB- (read as ACUITE triple B minus)**' on the Rs. 30.19 Cr. bank facilities of AKME Star Housing Finance Limited (ASHFL). The outlook is '**Stable**'.

About ASHFL:

ASHFL is a Rajasthan based HFC promoted by late Mr. Mohan Lal Nagda and Jain family. The company is engaged in extending Loan against Property, construction of houses and builder financing since 2005. The company is a part of larger AKME Group having presence of over two decades in financial services and real estate sectors.

The day to day operations of the company are managed by Mr. Ashish Jain in capacity of a Managing Director. The company presently operates through a DSA model and gradually plans to expand its presence through a branch network across Rajasthan, Madhya Pradesh, Maharashtra and Gujarat. ASHFL's equity shares are listed on BSE and the promoter and promoter group holds 52.7 percent of the aggregate shareholding in the company as on September 30, 2019.

The company has raised additional funds of Rs. 15.5 Cr. by a preferential allotment of equity shares to Arkfin Investments Private Limited. AIPL is a core investment company led by Mr. Anil Sachidanand, a seasoned professional with over three decades of experience in the financial services domain.

Analytical Approach

Acuité has considered a standalone view on ASHFL's business and financial risk profile to arrive at the rating.

Earlier, Acuité had adopted a consolidated approach on the business and financial risk profile of ASHFL along with AKME Fintrade India Limited and AKME Fincon Limited. The consolidated approach was driven by the common management, shared brand, and strong business, operational and financial synergies between these companies.

The change in approach is on account of recent developments in ASHFL wherein it has entered into a definitive agreement with Arkfin Investments Private Limited (AIPL) for equity infusion. AIPL has acquired ~21 percent stake in ASHFL post the equity infusion in October. In addition to the financial support in the form of equity infusion, AIPL will also be extending managerial and operational support to ASHFL. Acuité believes that with the proposed investment by AIPL, ASHFL will be managed on independent lines with active oversight by AIPL. Hence, the linkages with the other group entities in the form of direct/indirect exposures etc. are expected to be significantly lower.

Acuité believes that in view of these developments, a standalone approach is warranted.

Key Rating Drivers

Strengths

- **Established presence in financial services; Credit profile expected to be strengthened due to entry of new investor:**

ASHFL commenced its lending operations in 2005 upon registration as a Housing Finance company with National Housing Bank. The company is part of AKME group which is promoted by late Mr. Mohan Lal Nagda and Jain family. The promoters have over three decades of presence in financial services which supports the business profile of the Group.

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 (an NBFC) and AKME Star Housing Finance Limited (HFC). The group largely operates in Rajasthan and has expanded to Maharashtra, Madhya Pradesh and Gujarat. The Group has a strong foothold in Rajasthan region and has been lending through community lending model.

ASHFL is expected to receive financial and operational support from Arkfin Investments Private Limited. AIPL is a core investment company holding 21 percent as on October 30, 2019 in ASHFL. The existing promoters will continue to retain their holding. AIPL is led by Mr. Anil Sachidanand who is a seasoned professional over three decades of experience in financial services. With Arkfin coming in, the credit profile of ASHFL is expected to strengthen on the back of definitive agreement signed between the two companies to strategically grow the lending business of ASHFL.

AIPL as a part of the definitive agreement is in the process of strengthening the liability program by extending financial support by way of equity infusion to the tune of Rs. 15.5 Cr. which has already been infused as on October 30, 2019 and support the company to raise additional equity funding Rs. 24 Cr. by March 2020 through a set of investors while maintaining their stake at existing levels. Further, it plans to expand the liability program by reaching out to Public/Private Sector Banks, financial institutions and the regulator. AIPL has already initiated the process of strengthening the credit underwriting and monitoring systems by deploying core lending suite along with mobility solutions. ASHFL plans to expand to newer geographies and take a gradual shift to branch based lending from the exiting DSA based lending model.

AIPL has already inducted some seasoned professionals as functional heads of ASHFL in respect of key functions such as funding, business and strategy domains to support the transition in the business model. These representative have over decades of experience in their respective domains. The company will continue to be led by Mr. Ashish Jain as Chairman and Managing Director of ASHFL. Mr. Jain is actively involved in various capacities with the Group since 2015.

Acuité believes that ASHFL's credit profile will continue to be supported by the established presence of ASHFL in its area of operations coupled with the managerial and financial support from AIPL.

- **Government thrust on housing expected to support future business growth:**

ASHFL's loan portfolio primarily comprises of loans extended for housing construction in the Tier II and Tier III cities of Rajasthan, Gujarat, Madhya Pradesh and Maharashtra. Of the overall portfolio of Rs. 63.3 Cr. as on March 31, 2019, Loans extended for house construction comprised 82 percent, and the balance comprised loans for home improvement, new purchase and mortgage loans. The portfolio was spread across 682 borrowers with an average ticket size is Rs. 0.09 Cr. as on March 31, 2019. ASHFL has been focusing mainly on Rajasthan, though it has gradually started exploring other markets like Maharashtra, MP and Gujarat. Of the overall portfolio as on March 31, 2019, 74 percent of the portfolio is concentrated across Rajasthan, 16 percent is across Madhya Pradesh, Gujarat comprised 7 percent and remaining 3 percent is in Maharashtra. The company plans to target Extended Suburbs of Metros/Urban Agglomerations, Satellite towns of urban centres, Tier II, Tier III and Tier IV cities going forward.

ASHFL is qualified as a Primary Lending Institution under Pradhan Mantri Awas Yojana (PMAY). The company plans to continue to maintain a granular loan portfolio supported by government schemes such as the PMAY. The PMAY targets to construct 20 million houses targeting EWS/LIG/MIG households. Projected financial assistance of Rs.2,000 bn. till 2022 from central government. The financial assistance in the form of

subsidy by the Government under PMAY increases the affordability quotient of the borrower in the lower income strata. This augurs well for the housing finance companies like ASHFL.

In addition to the regulatory push to the housing sector, ASHFL is also expected to benefit from the expansion of its branch network. Presently the company has 2 active branches and plans to expand its network to 12 branches by March 2020 and further to 27 branches by March 2021. ASHFL proposes to significantly add to its headcount and also develop a strong IT infrastructure which will enable robust monitoring and tracking of loans in a timely manner.

ASHFL has plans to raise further equity and debt to fund the growth plans over the next one to two years.

Acuité believes that ASHFL's ability to scale up its operations while achieving diversity across geographies will be supported by two factors; Government's initiative on housing and ASHFL's ongoing initiatives to expand its branch network and streamline its operations and processes.

Weaknesses

- Ability to maintain asset quality, profitability and liquidity profile at healthy levels:**

ASHFL forayed in the housing finance segment in 2005 with tenure of loans ranging from 3 to 8 years. The company has a modest loan portfolio of Rs. 63.3 Cr. as on March 31, 2019 as against Rs. 20.3 Cr. as on March 31, 2017. The company has managed its asset quality with a Gross NPA of 1.7 percent as on March 31, 2019. However since 77 percent of the portfolio has a seasoning of less than 2 years, the ability to maintain healthy asset quality across a cycle is yet to be demonstrated. The company's borrower profile is skewed towards self-employed borrowers which comprise 79 percent of the portfolio and the balance comprising salaried persons. The company has maintained average collection efficiency ~93 percent in the 12 months ended June 2019, which could be attributed to the fluctuations in the cashflow profiles of the borrowers.

The company's operations in Rajasthan comprised 74 percent of the portfolio as on March 31, 2019. The key risk emanating from a skewed geographical and borrower mix is that the cash flows of the borrowers are dependent on the level of economic activity in the region. Occurrence of events such as slowdown in economic activity or shifting of industrial activity to other geographies could impact the cash flows of the borrowers, thereby impacting credit profile of ASHFL's borrowers. Moderation in economic activity also impacts demand for housing in the region, which is likely to impact the realizable value of the housing assets which are backing the loan.

Besides the asset quality parameters, the company's ability to maintain healthy profitability metrics will also be a key monitorable. The company is now shifting to a branch based model as against the existing model of DSAs. Hence, a moderation in margins could be expected over the near term till the operations at the new branches stabilize and the branches start generating optimal level of business. ASHFL's profitability will be dependent on its ability to leverage the branch network for scaling up its assets under management (AUM) directly through on-book loan portfolio growth or managed portfolio by tying up with others NBFCs/Banks.

The company presently extends housing loans for three to eight years which are funded through a mix of equity and debt from banks and FIs. The borrowing are for a period ranging from five to six years. Hence the company will be required to access longer tenure funds (equity or long term loans) commensurate with its asset profile. Any negative mismatches in the maturities of assets and liabilities will have to be managed through timely funding support.

Acuité believes that with the gradual scaling up of the loan book, the management's ability to maintain healthy asset quality and profitability metrics will be key rating sensitivity.

Rating Sensitivities

- Timely infusion of equity from new investor
- Leverage moving above 2 times levels by 2021
- Gross NPA levels deteriorating to above 2 percent levels

Material Covenants: None

Liquidity Position: Adequate

ASHFL's funding profile comprises of term loans from banks and Financial Institutions with tenure of upto five years. The company extends loans for a tenure ranging from 3 to 8 years. The gap between the loans extended by the company and its borrowings has resulted in negative mismatches in upto one year buckets, based on ALM statement as on June 30, 2019. However, the company has received equity funds of Rs. 15.5 Cr. in October 2019 from Arkfin investments Private limited which is likely to support the liquidity profile over the near to medium term. The company is also in discussion with potential lenders for raising additional debt.

Acuité believes that ASHFL's ability to maintain the tradeoff between liquidity and Growth (disbursements) will be linked to fresh equity infusion and also its ability raise long term debt.

Outlook: Stable

Acuité believes that ASHFL will maintain a stable credit profile over the near to medium owing to its established presence in financial services and the expected support from the entry of new investor. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and leverage indicators. Conversely, the outlook may be revised to 'Negative' in case of significantly lower than envisaged growth in loan book or in case of headwinds faced in maintaining asset quality, profitability and liquidity parameters at healthy levels.

About the Rated Entity - Key Financials

Parameters	Unit	FY19(Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	70.43	54.30	24.97
Total Income*	Rs. Cr.	7.34	5.26	2.92
PAT	Rs. Cr.	4.32	2.90	1.41
Net Worth	Rs. Cr.	27.44	23.08	17.95
Return on Average Assets (RoAA)	(%)	6.92	7.32	6.53
Return on Average Net Worth(RoNW)	(%)	17.09	14.15	8.16
Total Debt/Tangible Net Worth (Gearing)	Times	1.53	1.28	0.37
Gross NPA	(%)	1.7	1.2	1.6
Net NPA	(%)	1.4	1.0	1.1

* Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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

November 21, 2018	Term Loan	Long Term	6.29	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	4.75	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Facility	Long Term	32.96	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BBB-/Stable (Reaffirmed)
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	4.05	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	NA	NA	NA	3.00	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	NA	NA	NA	3.25	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	NA	NA	NA	3.00	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	NA	NA	NA	11.74	ACUITE BBB-/Stable (Assigned)
Term Loan	NA	NA	NA	8.12	ACUITE BBB-/Stable (Assigned)
Term Loan	NA	NA	NA	1.83	ACUITE BBB-/Stable (Assigned)
Term Loan	NA	NA	NA	2.50	ACUITE BBB-/Stable (Assigned)
Term Loan	NA	NA	NA	6.00	ACUITE BBB-/Stable (Assigned)

Proposed Bank Facility	NA	NA	NA	6.51	ACUITE BBB-/Stable (Reaffirmed)
------------------------	----	----	----	------	---------------------------------

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President- Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Leena Gupta Senior Rating Analyst - Rating Operations Tel: 022-49294061 leena.gupta@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.