

Press Release

Habitat Micro Build India Housing Finance Company Private Limited

December 19, 2019

Rating Reaffirmed and Assigned



| | |
|-------------------------|--|
| Bank Loan Rating | Rs. 50.00 Cr. (Enhanced from Rs. 20.00 Crore) |
| Long Term Rating | ACUITE BBB/Stable (Reaffirmed and Assigned) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned a long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 50.00 Cr bank facilities of HABITAT MICRO BUILD INDIA HOUSING FINANCE COMPANY PRIVATE LIMITED (MBIND). The outlook is '**Stable**'.

Bangalore based MBIND was incorporated in November 2010. MBIND was registered with National Housing Bank (NHB) in June 2012 as a Housing Finance Company (HFC). MBIND is part of the global Micro Build Fund, an initiative by Habitat for Humanity International (HFHI) that invests in shelter-related microfinance products provided through local financial institutions. MBIND's operational objective is to reduce poverty housing, and improve health and living environments for low-income families across India. MBIND provides term loans to financial institutions including Micro Financial Institutions (MFI) and Housing Finance Company's (HFC) in India which in turn will be used to extend financial assistance to their customers for the purpose of home improvements (such as house repairs). The company also partners with MFI's, where the MFI's would act like business correspondents ("Business Affiliate"). The company also provides Technical Assistance in order to support the said institutions to design and offer housing loan products to meet the requirements of beneficiary families.

About Habitat for Humanity International (HFHI)

USA based HFHI was founded as a not for profit organisation by Millard and Linda Fuller in 1976. HFHI has been able to join together many companies, community groups, governments and others to together tackle the need for safe, decent, affordable housing for all. Through the work of HFHI, over 6 lakh low-income families have built shelters in the form of affordable housing. The work of the organisation is spread across various countries in North America, Latin America and the Caribbean, Africa, Eastern and Western Europe, and throughout the Asia-Pacific region. As on June 30, 2018 HFHI had a balance sheet size of USD 386 million with net assets under management of USD 230 million.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of MBIND to arrive at this rating.

Key Rating Drivers

Strengths

• Support from marquee investors and experienced management:

MBIND is a subsidiary of HFHI, MBIND holds 70.78 percent stake in MBIND with the balance 29.12 percent held by Mr. Radhakishan Damani (promoter of Avenue Supermarts Limited) and 0.10 percent held by ASK Group.

The Board of Directors of MBIND comprises of representations from HFHI, Mr. Richard Hathaway, Chairman, is the Vice President of HFHI and has been instrumental for the overall success of Habitat's affordable housing activities throughout Asia and the Pacific Mr. Asit Koticha from ASK Group. Mr. Ramakant Baheti, is a representative of Mr. Radhakishan Damani, he is a chartered accountant with two decades experience in finance, and a director of Avenue Supermarts Limited. The board is also represented by Mr. Rajan Samuel, Director and Mr. Ramchandra Vaidya, Executive Director and CEO who are representatives of HFHI.

The board is supported by a senior management team comprising of experienced industry professionals

having a strong background in financial services and lending.

The second line of management team is headed by Mr. Ramchandra Vaidya, Executive Director and CEO, he has over two and half decades experience in BFSI sector. The team comprises of people with experience in micro finance and housing finance sector each having more than a decade of relevant experience. The extensive experience of the board and management team has helped MBIND put in place robust policies and procedures.

Acuite believes that MBIND will benefit from its experienced management team as it scales up its business volumes.

• **Comfortable operating parameters to support future growth plans:**

The company commenced its operations in 2012 and since then has expanded its loan portfolio to Rs. 68.71 Crore as on August 31, 2019 as against Rs. 33.94 Crore as on March 31, 2019. The company has been debt free till FY2018 driving the growth in loan portfolio has been through capital support from the promoters of the company. The company's capital adequacy ratio (CAR) stood at 81.76 percent as on March 31, 2019 (73.65 percent as on August 31, 2019) and 100.91 percent as on March 31, 2018, its gearing stood at 0.33x as on March 31, 2019 (0.67x as on August 31, 2019) giving sufficient headroom for leveraging for growth in loan book. The company has maintained healthy operating parameters with While the company's wholesale portfolio had NIL Non-performing Assets (NPA) overall Gross Non-performing Assets (GNPA) stood at 0.22 percent as on March 31, 2019 as against 0.09 percent as on March 31, 2018, contributed from the retail portfolio. Return on Average Assets (RoAA) of 6.96 percent for FY2019 as against 7.01 percent for FY2018. The RoAA is expected to decline marginally mainly on account of expectation of increase in external borrowings.

Acuite believes, that the ability of the company to attract low cost of borrowings, while growing its loan book and maintaining its operating parameters will be a key rating monitorable.

Weaknesses

• **Susceptible to risks inherent in wholesale lending segment**

The product profile of the company comprises of loans to MFI's for onward lending towards affordable housing financing and retail lending through Business Correspondent (BC) model. MBIND's loan book stood at Rs. 67.34 Crore as on March 31, 2019 (Rs. 68.71 Crore as on August 31, 2019) as against Rs. 52.56 Crore as on March 31, 2018. The loan book as on March 2019 comprised of 17 borrowers as against 12 borrowers as on March 31, 2018.

Under the retail model, the company extended loans through the BC model, as on August 31, 2019 the company had only single business associate. The last disbursement done in this segment was in FY2017. The company is in discussion with multiple business associate for growing its retail portfolio. As on March 31, 2019, 99.36 percent (PY: 99.23 percent) of the loan book comprised of wholesale loans and the balance comprises of retail loans, leading to a concentration of the loan book in the wholesale segment.

Under the wholesale segment the tenure of loans was 2 -4 years with an average ticket size of Rs. 5.00 crore, while a borrower may be given multiple loans, the maximum exposure for a single borrower is usually capped at Rs. 10.00 crore. The profile of the borrowers in the wholesale segment comprises of MFI's who have an established track record of operations, 77 percent of the loan book comprised of exposures towards high rating category (based on external ratings). As on September 30, 2019 the portfolio comprises of 20 borrowers, with top 3 borrowers accounting for ~32 percent of the loan portfolio, highest single party exposure was ~11 percent. While asset quality of the loan portfolio has been healthy with NIL Non Performing Assets (NPA) over the past three year period, slippage in the credit quality of one or two accounts can impact the operating performance of the company. Similarly pre-payments by an existing borrower can also impact the operating performance as the company may have to identify alternative borrowers at competitive pricing.

Acuite believes that the ability to gradually shift towards retail and granular portfolio while maintaining growth in its loan book while maintaining its asset quality will be a key monitorable.

Material Covenants across lenders

- Maintaining minimum Capital Adequacy Ratio of 20% and networth of Rs. 50.00 crore
- Maintaining minimum Debt to Equity 1.5x times;
- Maintaining minimum GNPA < 2%
- Maximum single party exposure of 15% of NW
- Minimum 60% holding of HFHI

Rating Sensitivity Factors

- Growth in AUM, profitability and asset quality.
- Maintaining granularity in the portfolio
- Gearing beyond 1.5x
- Maintenance of adequate Liquidity

Liquidity Position – Adequate

As per the asset liability management (ALM) statement dated August 31, 2019, MBIND has positive mismatch in all of its maturity buckets mainly because the loan book is mostly funded through equity (Gearing of 0.33 times as on March 31, 2019). The average tenure of the borrowings are 2-3 years while the maturity of its assets are 3-4 years. MBIND is in the process of raising debt from various banks and institutions and is expected to be capped at 1x for FY2020, going forward the ability of the company to align the maturity of its asset profile with the maturity of its liabilities will be crucial to manage the asset liability gaps.

Outlook: Stable

Acuite believes MBIND will maintain a 'Stable' outlook given its experienced management team and comfortable capitalization. The outlook may be revised to 'Positive' if there is significant scale up of the operations, while maintaining profitability and healthy asset quality. Conversely, the outlook may be revised to 'Negative' in case of growth challenges or if the company faces asset quality or profitability related challenges.

About the Rated Entity - Key Financials

| Particulars | Unit | FY19 | FY18 | FY17 |
|---|---------|-------|-------|-------|
| Total Assets | Rs. Cr. | 78.58 | 54.43 | 50.78 |
| Total Income* | Rs. Cr. | 8.47 | 6.75 | 3.78 |
| PAT | Rs. Cr. | 4.61 | 3.69 | 1.70 |
| Net Worth | Rs. Cr. | 58.61 | 54.00 | 50.32 |
| Return on Average Assets (RoAA) | (%) | 6.93 | 7.01 | 4.73 |
| Return on Average Net Worth (RoNW) | (%) | 8.18 | 7.07 | 4.77 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 0.33 | 0.00 | 0.00 |
| Gross NPA | (%) | 0.22 | 0.09 | 0.12 |
| Net NPA | (%) | 0.17 | 0.07 | 0.06 |

*Total income equals to Net interest income plus other income

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- 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>

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. Crore) | Ratings/Outlook |
|------------------|---------------------------------|-----------|--------------------|----------------------------|
| 20-November-2019 | Term loan | Long Term | 20.00 | ACUITE A/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 |
|------------------------|------------------|-------------|---------------|-----------------------------|-----------------|
|------------------------|------------------|-------------|---------------|-----------------------------|-----------------|

| | | | | | |
|--------------------|----------------|----------------|----------------|---|---|
| Proposed Term Loan | Not Applicable | Not Applicable | Not Applicable | 50.00 (Enhanced from RS. 20.00 Crore) | ACUITE BBB/Stable (Reaffirmed and Assigned) |
|--------------------|----------------|----------------|----------------|---|---|

Contacts

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|---|--|
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About Acuité Ratings & Research:

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