

Press Release

Khush Housing Finance Private Limited

April 08, 2021



Rating Assigned

Total Bank Facilities Rated	Rs.250.00 Cr.
Long Term Rating	ACUITE BBB+/ Stable (Assigned)

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB+**' (**read as ACUITE BBB plus**) on the Rs.250.00 Cr. bank loan facilities of Khush Housing Finance Private Limited (KHFPL). The outlook is '**Stable**'.

The rating takes into account KHFPL's promoter support in the form capital infusion (both debt and equity) at regular intervals and complete ownership of the company with promoter together with family members and trusts. The rating also factors in stable and healthy capitalization with Capital Adequacy Ratio (CAR) as of 57.47% and low gearing levels of 1.90 times as on December 31,2020. Further, the company has healthy profitability metrics characterized by NIM and ROTA of 10.28% and 5.41% (annualized), respectively during 9MFY21. The rating is, however, constrained by moderate asset quality with GNPA of 1.74% as on December 31,2020 and concentrated construction finance portfolio accounting for ~16% of Asset Under Management (AUM) as on December 31,2020. The ratings are further constrained by declining disbursements over the past few quarters. Further low seasoning coupled with geographical concentration risk continues to weigh on credit profile of the company which might be exacerbated by another round of possible Covid induced lockdowns and economic disruptions.

Acuité believes that the ability of the company to raise fresh debt and achieve steady and sustainable growth in AUM while maintaining profitability & asset quality, especially of construction finance portfolio, comfortable liquidity profile will be key monitorables.

About the company

Incorporated in 2011, Khush Housing Finance Private Limited (KHFPL) is a Mumbai based housing finance company registered with National Housing Bank (NHB) under National Housing Bank Act, 1987. The company commenced business in 2015 and is engaged in providing home loans and loans against property to salaried and non-salaried individuals, mainly mid/low income customer segment and economically weaker section of the society which fall under credit linked subsidy scheme (CLSS).

The company has a presence in three states, namely Maharashtra, Gujarat and Rajasthan through a network of 18 branches spread across 14 districts as on December 31,2020. Its Asset Under Management (AUM) stood at Rs.384.48 Cr. of which home loans comprised ~61% of the AUM, followed by LAP at ~23% and Construction Finance at ~16%.

Analytical Approach

Acuité has adopted a standalone approach on KHFPL's business and financial risk profile for arriving at the rating.

Key Rating Drivers

Strengths

Experienced Management

KHFPL is promoted by Mr. Amit Magia, who also looks after the operations of the company as Managing Director and Chief Executive Officer (MD & CEO). Mr. Amit Magia together with family members and trusts holds entire stake in the company. Mr. Magia has more than 25 years of experience in the field of Finance, Banking, Treasury Management, Real Estate Investments, and Liaising with Regulatory bodies. The company also benefits from the experience of eminent professionals on its board namely Mr. Prakash Mallya, a career banker having over 45 years of experience in various capacities in Canara Bank, Syndicate Bank, among others and Mr. Geoffrey Ross Bazzan, a senior financial markets executive with over 20 years of experience in managing portfolios and analyzing companies across the Asia Pacific ex-Japan region. Further, Mr. Magia is assisted by seasoned and experienced professionals in managing the operations of the company.

Acuité believes that extensive experience of the promoter will be central to support the business profile of KHFPL in the near to medium term.

Comfortable capitalisation & gearing levels

KHFPL had healthy capitalization levels as on March 31, 2020 as reflected in Capital Adequacy Ratio (CAR) of 51.18% (40.87% as on March 31,2019) and Tier I CAR of 50.22% (40.14% as on March 31,2019). The company's networth stood at Rs.115.4 Cr. as on March 31,2020 as against Rs.94.43 Cr. as on March 31, 2019 led by healthy accretion of profits and capital infusion of Rs.58 Cr. since inception from the promoters. The company has maintained sound gearing levels of 2.15 times as on March 31,2020 (2.84 times as on March 31,2019) due to prepayment of high cost borrowings.

The CAR and Tier I CAR improved to 57.47% and 56.52%, respectively as on December 31,2020. Networth and borrowings stood at Rs.131.4 Cr. (Prov.) and Rs.250.11 Cr. respectively as on December 31,2020 resulting in further reduction of gearing to 1.90 times. Further, the promoter made debt funding in the form of unsecured loan of Rs.25 Cr. during 9MFY2021.

Healthy Earnings Profile

The company has healthy earnings profile and profitability metrics. During FY20, the company reported ROTA of 5.62% as of March 2020 as against 4.64% as of March 2019 aided by healthy margins (NIM of 9.55% during FY2020 as against 9.18% during FY2019) and operational efficiency (Opex to earning assets of 2.97% as of March 2020 as against 3.34 % as of March 2019). RoTA stood at 5.41% (annualized) during 9MFY21. Stable margins, opex rationalization have offset impact of rising provisions/ write-offs, thereby resulting in improvement in profitability.

Weaknesses

Moderate Asset Quality

KHFPL primarily focuses on home loans (~61% of AUM as on December 31,2020), catering to economically weaker section and low income group individuals which are highly vulnerable to exogenous shocks. The LAP book constitutes ~23% of the AUM, whereas construction loans form about 16% of the total portfolio as on December 31, 2020. The company has consciously decided to curtail the construction finance portfolio. As on March 31, 2020, KHFPL reported Gross NPA Ratio of 2.87% (PY: 2.57%) and Net NPA Ratio of 1.94% (PY: 1.92%). As on December 31, 2020, the Gross NPA Ratio improved marginally to 1.74% whereas high provision coverage ratio of 66% led to improved Net NPA Ratio at 0.59%. Nonetheless, delinquencies in 61-90 bucket jumped to 14.20% as on December 31,2020 (9.83% as on March 31,2020) before declining to 3.63% as on February 28,2021

indicating improved collections. Construction finance portfolio had nil NPAs as on December 31, 2020.

Acuité believes that the company's ability to achieve steady and sustainable growth in AUM while maintaining asset quality especially of construction finance portfolio will be key monitorable.

Moderate Scale of Operations; Geographical concentration risk

The company's disbursements declined over the past few quarters in the view of Covid-19 scenario, while it prepaid some high cost borrowings during this period. The disbursements for FY2020 stood at Rs.83.54 Cr. vis a vis Rs.122.86 Cr. in FY2019. For 9MFY2021, disbursements stood at Rs.27.31 Cr. The outstanding portfolio of the company continues to be stable at Rs.362 Cr. as on March 31, 2020 [FY2019.: Rs.356 Cr.] and Rs.384 Cr. on December 31,2020. This is because a portion of company's borrowers (accounting for roughly 10-15% of portfolio) generally foreclose/ balance transfer the loans before maturity.

The company faces high geographical concentration risk on account of its majority of loan exposure in Western India region. Around 87% of the outstanding portfolio as on December 31, 2020 is concentrated in Maharashtra region, followed by Rajasthan at 10% and Gujarat contributing to a small portion of 3%.

Rating Sensitivities

- Ability to raise fresh debt at competitive rates
- Asset Quality challenges in construction finance
- Growth in AUM while maintaining asset quality
- Changes in regulatory environment

Material Covenants

KHFPL is subject to covenants stipulated by its lenders in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from the Group via email dated March 28,2021, 'The Company has complied with all covenants stipulated by all its lenders.'

Liquidity Position: Adequate

Company's cash and cash equivalents stood at Rs.20.69 Cr. as on February 28,2021. In addition, the company has undrawn term loan facility of Rs.15 Cr. from National Housing Bank (NHB) and CC facility from AU SFB of Rs.5 Cr. Company's debt obligations for the period March-August 2021 stood at ~Rs.28 Cr. While there has been improvement in collection efficiency as reflected in collection efficiency (actual collections as against scheduled collections) at ~86% in January 2021(~60% in April 2020), Acuité believes that the ability to raise long term funding along with stability in collection efficiency will be critical to maintaining a stable liquidity profile.

Outlook: Stable

Acuité believes that KHFPL will maintain a 'Stable' outlook over the medium term supported by its experienced promoters and healthy overall financial performance. The outlook may be revised to 'Positive' in case of significant and sustainable growth in scale of operations while mitigating asset quality risks in its portfolio and demonstrated improvement in liquidity profile. The outlook may be revised to 'Negative' in case of sharp deterioration in its asset quality, profitability levels or significant deterioration in liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	378.26	375.12
Total Income	Rs. Cr.	35.82	34.59

PAT	Rs. Cr.	20.96	17.41
Net Worth	Rs. Cr.	115.39	94.43
Return on Average Assets (RoAA)	(%)	5.56	5.06
Return on Average Net Worth (RoNW)	(%)	19.98	20.31
Total Debt/Tangible Net Worth (Gearing)	Times	2.15	2.84
Gross NPAs	(%)	2.87	1.46
Net NPAs	(%)	1.92	1.91

* Total income equals to Net interest income plus other income

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of Non-Banking Financing Entities:- <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs Cr.)	Ratings/Outlook
Term Loan	Not Available	Not Available	Not Available	8.42	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	5.69	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	47.75	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	2.77	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	20.8	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	18.46	ACUITE BBB+/Stable (Assigned)

Term Loan	Not Available	Not Available	Not Available	11.62	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	5.54	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	3.85	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	10.42	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	13.59	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	79.86	ACUITE BBB+/Stable (Assigned)
Cash Credit	Not Available	Not Available	Not Available	5	ACUITE BBB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	16.23	ACUITE BBB+/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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