

Press Release

Khush Housing Finance Private Limited

July 07, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	250.00	ACUITE BBB Negative Downgraded Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	250.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** to **'ACUITE BBB' (read as ACUITE triple B)** on the Rs.250.00 Cr. bank loan facilities of Khush Housing Finance Private Limited (KHFPL). The outlook is revised from **"Stable"** to **"Negative"**.

Reason For Downgrade and revision in outlook:

The rating downgrade takes into account deterioration in KHFPL's asset quality as reflected in the sharp decline of the on-time portfolio to 68.84 percent as on March 31, 2022. The company has reported a spike in delinquencies in 1 to 30 days dpd bucket and 61-90 days dpd bucket rising to 22.90 percent as on March 31, 2022, from 12.24 percent as on March 31, 2021, and 2.26 percent as on March 31, 2022, from 0.37 percent as on March 31, 2021, respectively. Gross NPA (PAR 90) rose to 3.36 percent as on March 31, 2022, from 1.45 percent as on March 31, 2021. The rating is also constrained by continuously declining AUM on account of persistently lower disbursements levels and also higher prepayment and foreclosure of loans. The rating takes into cognizance the company's moderate scale of operations, geographical concentration in Maharashtra (~87 percent of the total portfolio as on March 31, 2022) and moderate profitability. On account of continues decline in AUM, KHFPL saw a moderation in earning profile marked by reduction in NII from Rs. 38.33 Cr. as on March 31, 2021, to Rs. 28.48 Cr as on March 31, 2022, and reduction in PAT levels from Rs. 18.22 Cr in FY2021 to Rs. 8.98 Cr in FY 2022.

Nevertheless, the rating continues to factor in the experience of the management team, good governance framework. The rating also factors in company's adequate capitalization metrics marked by CAR which stood at 68.64 percent (prov.) as on March 31, 2022. The gearing levels of KHFPL remains moderate mainly on account of decline in borrowings as the growth momentum slowed down in FY22 (1.37 times as on March 31, 2022, from 1.92 times as on March 31, 2021).

Acuite 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 monitorable.

Acuite also takes a note of change of auditors post completion of 5 years tenure and subsequent disclaimer and qualifications made by them. However as per the audit report of FY 2022 there were no qualifications reported by the new auditor.

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 12 branches spread across 14 districts as on March 31, 2022. Its Asset Under Management (AUM) stood at Rs.327.86 Cr. of which home loans comprised ~56 percent of the AUM, followed by LAP at ~28 percent and Construction Finance at ~16 percent.

Analytical Approach

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

Key Rating Drivers

Strength

- **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 analysing 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, 2022 as reflected in Capital Adequacy Ratio (CAR) of 68.64 Percent (prov.) (59.17 Percent as on March 31, 2021) and Tier I CAR of 66.74 percent (58.11 as on March 31, 2021). The company's networth stood at Rs.139.07 Cr. as on March 31, 2022 as against Rs.133.61 Cr. as on March 31, 2021, 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 1.37 times as on March 31, 2022 (1.92 times as on March 31, 2021) due to prepayment of high-cost borrowings.

Weakness

- **Moderate Asset Quality**

KHFPL primarily focuses on home loans (~56 percent of AUM as on March 31, 2022), catering to economically weaker section and low-income group individuals which are highly vulnerable to exogenous shocks. The LAP book constitutes ~28 percent of the AUM, whereas construction loans form about 16 percent of the total portfolio as on March 31, 2022. The company has consciously decided to curtail the construction finance portfolio. As on March 31, 2022, KHFPL reported Gross NPA of 3.36 percent (PY: 1.45 percent) and Net NPA of 2.00 percent (PY: 0.28 percent). As on March 31, 2022, the on-time portfolio stood at ~68 percent as against ~82

percent as on March 31, 2021. Construction finance portfolio had nil NPAs as on March 31, 2022. The company has reported a spike in delinquencies in 1 to 30 days dpd bucket and 61-90 days dpd bucket rising to 22.90 percent as on March 31, 2022, from 12.24 percent as on March 31, 2021, and 2.26 percent as on March 31, 2022, from 0.37 percent as on March 31, 2021, respectively.

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 years, while it prepaid some high-cost borrowings during this period. The disbursements for FY2022 stood at Rs.12.77 Cr. vis a vis Rs.37.07 Cr. in FY2021. This is because a portion of company's borrowers (accounting for roughly 3-4 percent of portfolio) generally foreclose/ balance transfer the loans before maturity. On account of continues decline in AUM, KHFPL saw a moderation in earning profile marked by reduction in NII from Rs. 38.33 Cr. as on March 31, 2021, to Rs. 28.48 Cr as on March 31, 2022, and reduction in PAT levels from Rs. 18.22 Cr in FY2021 to Rs. 8.98 Cr in FY 2022.

The company faces high geographical concentration risk on account of its majority of loan exposure in Western India region. Around 87 percent of the outstanding portfolio as on March 31, 2022, is concentrated in Maharashtra region, followed by Rajasthan at 10 percent and Gujarat contributing to a small portion of 3 percent.

Rating Sensitivity

- Ability to raise fresh debt at competitive rates
- Movement in asset quality and profitability matrix
- Growth in AUM
- 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.

Liquidity Position: Adequate

Company's cash and cash equivalents stood at Rs.17.07 Cr. as on March 31, 2022. Company's debt obligations for the period March-September 2022 stood at ~Rs.27 Cr. KHFPL reported an overall collection efficiency of ~99 percent in March 2022.

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 :Negative

Acuité believes that KHFPL's credit profile will be under pressure on account of decline in AUM and low disbursement in the current year. The outlook may be revised to 'Stable' in case KHFPL is able to demonstrate a significant improvement in the AUM and the disbursements. The rating may be downgraded if the company faces challenges in raising long term debt and scaling of operation while maintaining asset quality and profitability matrix.

Key Financials - Standalone / Originator

	Unit	FY22 (Actuals)	FY21 (Actuals)
Total Assets	Rs. Cr.	347.03	411.00
Total Income	Rs. Cr.	31.21	40.09
PAT	Rs. Cr.	8.98	18.22
Net Worth	Rs. Cr.	139.07	133.61

Return on Average Assets (RoAA)	(%)	2.37	4.65

Return on Average Net Worth (RoNW)	(%)	6.59	14.64
Total Debt/Tangible Net Worth (Gearing)	Times	1.37	1.92
Gross NPAs	(%)	3.36	1.45
Net NPAs	(%)	2.00	0.28

*** Total income equals to Net interest income plus other income**

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

Not Applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Apr 2021	Term Loan	Long Term	18.46	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	13.59	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	3.85	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	2.77	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	16.23	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	5.69	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	20.80	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	10.42	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	47.75	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	5.54	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	11.62	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	79.86	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	8.42	ACUITE BBB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	76.01	ACUITE BBB Negative Downgraded Stable to Negative
A U Small Finance Bank	Not Applicable	Term Loan	Not available	Not available	Not available	3.04	ACUITE BBB Negative Downgraded Stable to Negative
Avanse Financial Services Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	3.60	ACUITE BBB Negative Downgraded Stable to Negative
IDFC First Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	41.75	ACUITE BBB Negative Downgraded Stable to Negative
Dewan Housing Finance Corporation	Not Applicable	Term Loan	Not available	Not available	Not available	19.04	ACUITE BBB Negative Downgraded Stable to Negative
Hinduja Housing Finance Limited	Not Applicable	Term Loan	Not available	Not available	Not available	13.28	ACUITE BBB Negative Downgraded Stable to Negative
Indian Overseas Bank	Not Applicable	Term Loan	Not available	Not available	Not available	9.06	ACUITE BBB Negative Downgraded Stable to Negative
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	3.70	ACUITE BBB Negative Downgraded Stable to Negative
Lakshmi Vilas Bank	Not Applicable	Term Loan	Not available	Not available	Not available	8.15	ACUITE BBB Negative Downgraded Stable to Negative
National Housing Bank	Not Applicable	Term Loan	Not available	Not available	Not available	72.37	ACUITE BBB Negative Downgraded Stable to Negative

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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