

Press Release

Ashv Finance Limited

December 20, 2021

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BBB+ Stable Reaffirmed	
Non-Convertible Debentures (NCD)	100.00	ACUITE BBB+ Stable Reaffirmed	
Total	150.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 50.00 Cr Proposed bank facilities of Ashv Finance Limited (AFL). The outlook is '**Stable**'

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 30.00 Cr Non- convertible debentures of Ashv Finance Limited (AFL). The outlook is '**Stable**'

Further, Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 70.00 Cr Proposed Non- convertible debentures of Ashv Finance Limited (AFL). The outlook is '**Stable**'

The rating factors in continuous support from the promoter Aavishkar Group by way of regular capital infusion (Rs 50 Cr in FY2019 and Rs 100 Cr in FY20) and investment by marquee investors like Omidyar Network (ON) Mauritius, Developing World Markets and Tridos Investment Management. The rating takes into consideration shift in business model over a period of time with focus on granular loans (average ticket size of Business loans has come down from Rs 1 Cr in FY19 to Rs 0.13 Cr in FY2021) coupled with the change in management, credit policies and underwriting processes. This has resulted into a rise in AUM and the company recorded growth of ~30 percent y-o-y to Rs 514.18 Cr as on March 31, 2021 vis-à-vis Rs 391 Cr as on March 31, 2020. Despite the limited seasoning of the portfolio, the monthly collection efficiency of the recently originated business loans portfolio stood at ~96 percent. Further, AFL has comfortable capitalization levels at 42.77 percent as on September 30, 2021 and healthy liquidity buffers. Acuite also takes note of the low gearing levels of the company which stood at 1.53 times as on June 30, 2021 (provisional), which provide headroom for near term growth.

The rating is however constrained by deterioration in the Company's credit profile as reflected in the on-time portfolio which declined from 93.78 percent as on March 31, 2020 to 84.79 percent as on Sept 30, 2021. The delinquencies have increased as the company reported Gross NPA (90+DPD) at 7.19 percent as on Sept 30, 2021 (2.36 percent as on March 31, 2020). This is mainly on account of the legacy portfolio overhang which contributed ~70 percent of the total GNPA as on Sept 30, 2021. The company has also restructured loans amounting to Rs. 50.61 crores as on Sept 30, 2021 (9.98 percent of the Total AUM), out of which, the portfolio restructured towards legacy book stood at Rs 44.23 Cr as on Sept 30, 2021 (8.72 percent of the total AUM). Further, the company has moderate profitability as indicated by its Return on Average Assets (ROAA) which stood at 1.43 percent as on March 31, 2021. While Acuite takes cognizance of the healthy collection efficiency of the recently originated business loans portfolio and healthy provision cover of legacy portfolio; high operating

expenses as a result of expansion and overhang of legacy portfolio are expected to weigh in on profitability in the near to medium term. The rating is further constrained due to moderate resource profile with higher dependency on NBFCs. A diversified funding profile with an ability to mobilize low cost funds which will be key factor facilitating the business scalability. Going forward, the company's ability to raise capital (both equity & debt), maintain collection efficiency & liquidity buffers as well as contain delinquencies across different time buckets and its resultant impact on profitability metrics would remain key monitorable.

About the company

Incorporated in February 1998, Mumbai based Ashv Finance Ltd (AFL) (erstwhile Jain Sons Finlease Ltd) is registered as non-deposit taking non-banking financial company. AFL is engaged in funding the MSME sector through various products both secured and unsecured financing. On October 08, 2020, the company had received the approval from Registrar of Companies for change in the name of the company from "Jain Sons Finlease Ltd" to "Ashv Finance Ltd".

The company is promoted by the Aavishkaar group since 2011 which is focused on developing the impact ecosystem in the continents of Asia and Africa. The group is led by Mr. Vineet Rai who is the founder and Chairman of the group. The promoter group hold 61.50 percent of the equity shareholding in AFL. The company started its lending operations in 2013 with venture-debt financing. In FY19, the revamping of the business model was done from venture debt financing to small ticket size business loan.

AFL currently operates in 19 states with a branch network of 25 branches as on Sept 30, 2021.

Analytical Approach

Acuité has considered standalone business and financial risk profile of AFL to arrive at the rating.

Key Rating Drivers

Strength

- **Support from Promoter Group coupled with Experienced Management.**

AFL is a part of the Aavishkaar Group which is focused on developing the impact ecosystem in the continents of Asia and Africa. As on Sept 2021, the Aavishkar Group holds 61.5 percent stake in the company. During FY2019 and FY2020, the promoter group collectively infused equity of Rs 150 crore demonstrating continuous support to the company. The Aavishkar group is led by Mr. Vineet Rai, founder and Chairman of the group, who is also on the board of AFL has more than 18 years of experience in financial industry.

During FY2019 and FY2020, the company underwent business and management restructuring. Mr Nikesh Sinha was appointed as MD & CEO in October 2018, having more than 25 years of experience in banking and finance. Previously, he had been associated with Axis Bank as the Head of Medium Enterprises Group (MEG) in the SME Vertical. Also, the company appointed Ms Kiran Agarwal Todi as the CFO in January 2019, having 18 years of experience and also worked as CFO at Home First Finance Company Limited. Further, Mr Ranjan Lahiri, joined as Chief Risk officer in June 2019, a Chartered Accountant with 20 years of experience at HDFC Bank in diversified domain like Operations, Credit and Risk Credit appraisal and risk, Portfolio monitoring, financial reporting and business development in SME space. The company's board is well represented by 2 Independent Directors and 2 Nominee Directors among total of 7 Directors having significant experience in finance domain. The key managerial personnel comprise of professionals with significant experience in financial industry.

The company is also backed by marquee investors like Omidyar Network (ON) Mauritius, a philanthropic investment firm holding 15.20 percent stake; Tridos Investment Management, a wholly owned subsidiary of Tridos Bank, holding 11.84 percent stake and Developing World Markets, an asset manager and investment bank holding 9.5 percent stake in the company as on Sept 30, 2021.

Acuité believes that continuous support from the promoter group and the marquee investor coupled with experienced management will be central to support the business risk profile of the company.

- **Business Growth driven by shift in lending towards small ticket MSME's**

AFL is tech-led NBFC empowering the small and emerging businesses offering Business Loans (79.27 percent), SME Loans (7.21 percent), Partnership & Book Buyouts (6.06 percent), On-lending (5.33 percent) and Supply Chain Financing (2.13 percent) as on Sept 30, 2021.

The company's AUM improved from Rs 391 crore as on March 2020 to Rs 514.81 crore as on March 2021 (growth of 31.50 percent). The growth in business is largely driven by change in strategy to concentrate on the small ticket sized business loans, thereby reducing the average ticket size from Rs 1 Cr in FY2019 to Rs 0.13 Cr in FY2021. Further, change in management as well as credit policy and underwriting processes also added to the growth in the business. The change resulted in significant improvement in the contribution by granular Business Loans from 25.12 percent of the AUM as on March 31, 2020 to 79.27 percent of the total AUM as on Sept 30, 2021. Also, the company disbursed Rs 443 Cr during FY2021 and Rs 175 Cr during H1 FY22.

Going forward, AFL intends to focus on the small ticket size business loans. The legacy book i.e. SME Term loan and Supply chain financing is expected to run down gradually.

Acuité expects the company to continue the business growth in light of the business revamp and change in strategy.

- **Comfortable capital structure with low gearing levels**

The Company has comfortable capitalization levels to support the near to medium term growth prospects. AFL's overall CAR remains comfortable at 42.77 percent as on September 30, 2021 (FY2020: 60.79 percent) consisting of Tier I CAR of 41.77 percent and Tier II CAR of 1.00 percent.

The company's capital structure is supported by a net worth of Rs. 248.87 crore as on March 31, 2021 (Rs 240.29 Crore as on March 31, 2020) with Total debt of Rs 340.50 crore as on March 31, 2021 resulting in a gearing of 1.37 times as on March 31, 2021 as against 1.08 times as on March 31, 2020, which provide headroom for near term growth. (1.53 times as on June 30, 2021-Provisional)

Acuité expects the capital structure to remain comfortable with the comfortable gearing levels considering the additional borrowings.

Weakness

- **Deterioration in Asset Quality.**

The company's overall asset quality deteriorated with on-time portfolio declining from 93.78 percent as on March 31, 2020 to 84.79 percent as on Sept 30, 2021. The asset quality deteriorated with increase in Gross NPA levels which stood at 7.19 percent as on Sept 30, 2021 as against 2.36 percent as on March 31, 2020. The deterioration is mainly in the legacy book of the company which was on-boarded before March 2020. The legacy book contributed ~70 percent of the total GNPA (Rs 36.46 Cr as on Sept 2021) largely impacted due to COVID related uncertainties.

Given the challenges, the business activities of the borrowers have impacted affecting the cash flows and thereby impacting the asset quality and the collection efficiency. On account of the rising NPA's, the company has stopped its lending towards nonessential sectors and is focusing towards lending only in the essential segments.

The company has also restructured loans amounting Rs. 50.61 crores as on Sept 30, 2021 (9.98 percent of the Total AUM), out of which, the portfolio restructured towards legacy book stood at Rs 44.23 Cr as on Sept 30, 2021 (8.72 percent of the total AUM). The company has created ~69 percent provision cover towards the legacy portfolio and and written off Rs 1.23

Cr. Further, ~57 percent of the provision cover has been created towards the total NPA portfolio. Going forward the performance of the legacy book (25% of AUM), incremental delinquencies from new book and the restructured book shall remain the key monitorable.

Acuité believes, given the challenges, the company's ability to manage the additional slippages while maintaining the portfolio collections will be crucial.

- **Modest Resource profile, Profitability metrics.**

As on Sept 2021, the company's outstanding borrowings stood at Rs 415.24 Cr. AFL has funding relationship across global impact investors (18.70 percent), Medium and Large NBFC's (60.58 percent), Rural Development Institutions (5.83 percent), Banks (3.06 percent). The company also raised funds via PTC (11.84 percent). Majority of the funding remains with medium and large NBFCs and global impact investors. The company's debt constitutes term loans from Banks (~3 percent) NBFC (~49.5 percent), PTC (~ 11.84 percent), NCD's (~30.90 percent) and pooled loan issuance (~4.8 percent), where the dependency on NBFCs is higher.

While the company has scaled up its loan portfolio steadily over the years from Rs 316.81 Cr as on March 31, 2018 to Rs 514.18 Cr as on March 31, 2021; the profitability of AFL is moderate as indicated by its Return on Average Assets (ROAA) which stood at 1.43 percent as on March 31, 2021. Given the plans to further expand its presence, the operating expenditure is expected to remain high. Also, the increase in credit costs will depend on the incremental stress in the legacy book which may impact the profitability going forward.

Further, a diversified funding profile with an ability to mobilize low cost funds which will be key factor facilitating the business scalability.

Acuité believes, the ability of the company to mobilize additional funding, profitable portfolio scale-up while maintaining asset quality will be crucial to the credit profile of the company.

ESG Factors Relevant for Rating

Ashv Finance Limited (AFL) belongs to the NBFC sector which complements bank lending in India. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks.

AFL's aims to provide funding to underbanked SMEs that have a potential for growth. The company provides collateral-free, flexible financing for small businesses with the intent to assist their growth. It is important for AFL to assess the sustainability factors and the ESG practices followed by the larger borrowers in its lending portfolio. Financial inclusion being the core of its lending operations, AFL aims to create a social impact in the area of community support and development.

AFL has adequate policies for business ethics and CSR. The entity also has corporate governance policies on whistle-blower programme, related party transactions and vigil mechanism. AFL also maintains transparency in terms of disclosures pertaining to interest rate policy and adheres to the Fair Practice Code as disseminated by Reserve Bank of India's circular. The NBFC also maintains high level of transparency by way of disclosures regarding functioning of its board. AFL's board is adequately diverse with 3 women directors and 2 independent directors out of a total of 7 board of directors.

Rating Sensitivity

- Ability to raise capital, both debt and equity.
- Movement in Asset Quality and Collection efficiency.
- Movement in profitability metrics.

Material Covenants

AFL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Liquidity Position Adequate

AFL's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated September 30, 2021 (provisional). The company is in talks with various lenders to raise long term debt. The company's liquidity position is supported by unencumbered Cash and Bank Balance of ~Rs 129 Cr as on Sept 30, 2021 (provisional). Future liquidity position will hinge upon the company's ability to raise resources while continuing to achieve optimal portfolio collections.

Outlook: Stable

Acuité believes that AFL will maintain a 'Stable' outlook over the near to medium term owing to the experienced management with support of the promoter group and marquee investors and healthy capitalization buffers. The outlook may be revised to 'Positive' in case of significant and sustainable growth in AUM while maintaining asset quality and improved profitability. Conversely, the outlook may be revised to 'Negative' in case of significantly higher than expected pressures on asset quality or profitability.

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	601.71	514.74
Total Income*	Rs. Cr.	63.31	40.70
PAT	Rs. Cr.	7.96	3.77
Net Worth	Rs. Cr.	248.87	240.29
Return on Average Assets (RoAA)	(%)	1.43	0.83
Return on Average Net Worth (RoNW)	(%)	3.26	3.25
Debt/Equity	Times	1.37	1.08
Gross NPA	(%)	3.15	2.36
Net NPA	(%)	1.52	0.69

*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
16 Nov 2021	Proposed Bank Facility	Long Term	50.00	ACUITE BBB+ Stable (Assigned)
	Proposed Non-Convertible Debentures	Long Term	100.00	ACUITE BBB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Quantum (Rs. Cr.)	Rating
Not Applicable	INE411R07103	Non-Convertible Debentures (NCD)	12-11-2021	13.45	25-10-2024	30.00	30.00	ACUITE BBB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.00	50.00	ACUITE BBB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	70.00	70.00	ACUITE BBB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.

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