

Ummeed Housing Finance Private Limited

June 22, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Non-Convertible Debentures	36.00* (Rupees Thirty Six crore only)	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned

* Not yet raised

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to proposed non-convertible debentures of Ummeed Housing Finance Private Limited (UHFL) factors in strong loan book expansion during FY20 with AUM growth by 52% to Rs.459 crores end Mar-2020, comfortable capital structure backed by periodical capital infusion from promoters and private equity investors, low albeit improving profitability metrics and experienced promoters and management team. CARE also takes note of recent capital infusion of Rs.164 crores during Q4FY20 with participation of new and existing investor. The ratings are also supported by adequate liquidity, stable risk management systems, healthy asset quality with marginal GNPA% of 0.12% and NNPA% of 0.10% end March-2020 and diversified resource profile with banking relations with 23 banks / Financials institutions (FIs). These rating strengths are, however, partially offset by short track record of operations, low seasoning of loan portfolio as large part of loan books is built over past two years and overall track record of four years of operations, high geographical concentrations of its loan-book with presence in 4 states and exposure to relatively riskier economically vulnerable borrower segment (assessment based income group) in both housing loans and non-housing loans (LAP & business loans).

In view of the current challenging economic environment that is expected to be further exacerbated due to nationwide lockdown amid outbreak of Covid19, the asset quality is remains a key monitorable. CARE also takes note of the recent measures announced by RBI in light of the Covid-19 pandemic to provide durable liquidity and protect asset quality. Announcements with respect to Targeted Long Term Repo Operation 2.0 (TLTRO 2.0) for NBFCs, HFCS and MFIs, special refinance facility by NHB to address sectoral credit needs and asset classification standstill for all accounts where moratorium is granted are expected to provide some relief to the liquidity profile and asset quality ratios.

Rating sensitivity

Going forward, the ability of the company to maintain healthy collections during COVID-19 crisis, improving its profitability, maintaining asset quality as loan book seasons, improvement in geographical diversification and maintenance of adequate liquidity, would be the key rating sensitivities.

Positive Factors

- Maintaining healthy collection efficiency and maintaining asset quality over medium term
- Diversification in terms of geography and resource base along with sustained improvement in asset quality as portfolio seasons
- Maintaining comfortable capitalization and gearing levels at around 2.5 times on a steady state basis.

Negative Factors

- Deterioration in profitability
- Significant weakening in asset quality with Gross NPA more than 2.5%
- Overall gearing exceeding 3.5 times

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team:

The company is promoted by Mr. Ashutosh Sharma, Managing Director who held 23.61% of shareholding as on March 31, 2020 (on fully diluted basis) (29.62% end Sep-2019). He has extensive experience of over 25 years in banking and financial services across multiple banks and is supported by an experienced second line of management with vast experience in the finance and housing finance industry, which includes, Sachin Grover, Chief Operating Officer, has over 20 years of mortgage experience. The operating team of UHFL consists of professionals with small-ticket mortgage experience. The company is also supported by presence of strong Private Equity (PE) investors as reflected by regular capital infusion. PE investors together hold 70.68% shares while largest PE holds 23.18% shares end March 31, 2020

²Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Healthy capitalization backed by periodic equity infusions provide adequate headroom for growth

UHFL has been able to raise equity capital at regular intervals and has been maintaining healthy capitalization at comfortable levels vis-à-vis statutory minimum requirements. Since its inception, the company has raised about Rs 299 crore (including series D round of infusion) from its promoters and marquee set of private equity investors. As a result, the company has been able to maintain healthy capitalization with total capital adequacy ratio (CAR) at 73% end March 31, 2020 as against 55.78% as on March 31, 2019. Gearing levels of the company stood low at 1.08 times end Mar-2020 down from 1.77 times Mar-2019. Post the recent round of capital infusion of Rs 164 crore during Q4FY20 (from Morgan Stanley PE along with participation of existing investor), UMHFL's tangible net-worth (including CCPS) improved to Rs 256 crore as on March 31, 2020 as against Rs133.50 crore an year ago.

Strong business growth during FY20

End fiscal 2020, UHFL's assets under management (AUM) stood at Rs. 459 crores up by 52% over Rs 302 crore end March-2019 and from Rs.107 crores as on Mar-18 registering a compounded annual growth rate (CAGR) of more than 100% for past two years. As on March 31, 2020, of the total loans, the company's housing loan (HL) book stood at Rs.300 crores (65.4% of AUM) followed by loan against property (LAP) at Rs.90.27 crores (19.7% of AUM) and rest towards non-housing business loans at Rs.68.57 crores (14.9% of AUM). In line with its strategy of increasing higher yield business loan, the company disbursed 18.5% (13.7% previous year) of its total loans during FY20 towards business loan segment and 22.6% towards LAP and has envisaged HL: non-HL portfolio of about 65:35. Being an affordable housing financing entity, the company maintains small ticket sizes with an average ticket size at a close to Rs.8-9 lacs. Although in the last two years, some transition towards higher ticket -loans has been registered with the share of loans above Rs 20 lacs increasing to 12.7% of AUM end fiscal 2020 as against 6.8% end fiscal 2018. Total disbursement during FY20 stood at Rs.258 crores similar to previous year at Rs.259 crores.

Well diversified resource profile

UMHFL has a fairly well diversified funding profile with resources raised from various sources such as private sector banks, NCDs, rupee denominated NCDs, term loans from other financial institutions. UHFL's total borrowings were Rs.277 crores as on March 31, 2020 up from Rs. 235.71 as on Mar-19 thereby supporting strong loan growth registered by the company. As on May 31, 2020, the company has banking relationship with more than 23 bank/FIs and had total borrowings of Rs.253 crore, of which bank borrowing outstanding stood at Rs.185.3 crore (73.3% of total borrowing), ECB transactions of Rs.37.2 crores (14.7%) and NCDs of Rs.30.2 crores (11.9%). The company has also entered in securitization / Direct Assignment transaction with 4 parties to cumulative amount of Rs.83.58 crores as on Mar-2020. The company has also raised Rs.10 crores of NCD under TLTRO 2.0 during June-2020. The company has availed moratorium period from only 2 lenders with less than 2% of outstanding borrowings as on May 31, 2020.

Adequate risk management and control systems

UHFL has put in place adequate risk management and control systems. The company has developed its lending policies with defined criteria on financial appraisal specific to various borrowers and industry, quality and amount of collateral and maximum exposure limits to individual and group borrowers. The company is in process of upgrading their IT infrastructure with development of tools to smoothen the credit process.

Key Rating Weaknesses**Limited track record of operations and low seasoning of loan portfolio**

UHFL was incorporated in January, 2016 and was extended the license to commence operations from NHB on 13th July, 2016. The company has completed four full years of operations and is still in its initial years of operations compared to the broader housing finance industry. Company's loan book was Rs.459 crores end March 31, 2020 up from Rs.382 crore as on September 30, 2019. UHFL's loan book comprised housing loans (65.4% of loan book as on March-2020), loan against property (19.7%) and business loan (14.9%). In the last few quarters, the company has been recalibrating its portfolio mix and has launched new product lines to increase the proportion of high yielding long term and short term business loans. This is being done to increase the margins while simultaneously managing asset liability mismatches. Given the changes in portfolio mix, the financial performance of the various loan products over near to medium term remains a key rating sensitive

Moderate profitability

Given UHFL's small, albeit expanding scale of operations, the company's profitability remains moderate with ROTA of 0.97% and RONW of 2.31% during FY20. Also, NIM% of the company has declined marginally to 5.64% during FY20 from 6.40% over previous year, however operating expenses (as a % of average total assets) has declined to 6.84% in FY20 as against 8.64% previous year. Interest spread of the company has skewed to 1.86% during FY20 vs 4.38% previous year and PAT margins of 6.38% improved from 5.8% during FY19. Going forward, CARE expects profitability to be impacted in the near term given sub-par collection due to COVID-19 outbreak coupled with high operating expenses and scheduled liability related outflows. Also,

given the fact that about 60% of the loans are at floating rate of interest, we expect some pressure on margins especially amid the current declining interest rate scenario.

Low seasoning of loan portfolio with exposure to vulnerable borrower segment

UHFL's portfolio is largely unseasoned with only 3 full years of operations vis-à-vis average loan tenure of 12 years at a portfolio level and majority of loan growth happening last year itself. As a result, the company's asset quality trends are yet to be established. The company has registered marginal delinquency with GNPA% of 0.12% and PAR 30+DPD of 0.23% as on Mar-20 though the sustenance of asset quality for longer terms is yet to be seen, particularly after the grant of moratorium period from RBI and expected credit behavior shift post moratorium amid expected stressful economic scenario. Also, UHFL is primarily engaged in advancing smaller ticket housing loans and caters to economically vulnerable borrower segment with 66% of the loans to self-employed individuals who have regular cash flows though majority of them have undocumented incomes. Since UHFL's borrower profile remains moderate in terms of income level vs. mainline HFCs, it exposes the company to the riskier borrower segment. Furthermore, the performance of new product towards business loans in retail segment also remains untested. Although CARE draws comfort from the fact that UHFL maintains low average LTV ratio of 55% for housing loans, 44% for LAP and 43% for business loans. On overall basis, the company follows conservative lending policy with about 85% of the portfolio having LTV below 70%.

Geographical concentration

In the previous two fiscal, the company's loan book has grown almost three fold with Haryana and Rajasthan as its largest states together contributing to ~73% of total loans outstanding as on March 31, 2020. While the company deepens its outreach in four states, highest growth has been registered in Haryana at 36.6% followed by Rajasthan at 36.2%, Delhi-NCR at 23.1% and rest 4.2% in Uttar Pradesh. Currently UHFL has 25 branches spread over 4 states. UHFL has opened 8 new branches in FY20. Overall, the state wise geographic concentration is expected to remain high as the company focuses on deepening its presence in same states rather than expanding in newer territories.

Liquidity: Adequate

Company's liquidity profile remains comfortable with no negative cumulative mismatches in up to one year bucket as per Asset Liability Maturity (ALM) statement as on March 31, 2020. Company's liquidity profile is also supported by largely equity funded growth (with low gearing of around 1.08 times as on Mar-2020). The company's total borrowings were around Rs.253 crore as on May 31, 2020 which it has raised from multiple sources including banks / FIs, NCDs, ECBs etc. Also, the company had undrawn funding lines of close to Rs.14.31 crore (undrawn limits & unutilised CC limits) and had cash & liquid investments of Rs.152 crores as on June 15, 2020 as against debt liabilities of Rs.61 crores for one year as per ALM statement dated March 31, 2020. Also, inflows on advances, though affected by current situation would provide some cushion to the liquidity profile. However with lower than expected scheduled inflows coupled with scheduled liability related outflows, the liquidity profile could moderate if the current challenging environment gets prolonged.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE Methodology for Housing Finance Corporation](#)

[Financial Ratios – Financial Sector](#)

About the Company

Ummeed Housing Finance Pvt Ltd (UHFL) is a housing finance company (HFC) incorporated in January 2016. UHFL obtained license to commence operations w.e.f. July 13, 2016 upon receipt of certificate of registration from NHB to operate as a non-deposit accepting HFC and it commenced the business of housing finance in August 2016. The company is engaged in providing housing loans to individuals (salaried and self-employed) for construction, purchase, repair and up-gradation of houses. It also provides non housing loans like Loan against Property (LAP), short-term and long-terms business loans, top-up loans and balance transfer loans to individuals. UHFL currently operates through 25 branches spread over 4 state Delhi NCR, Rajasthan, Haryana and Uttar Pradesh. UHFL has disbursed loans to around 6,144 borrowers with an outstanding loan portfolio of Rs.459 crore as on March 31, 2020. UHFL's portfolio has an average ticket size of ~Rs.8 Lakh having tenure of 5-20 years with average LTV of 46%.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (UA)
Total Income	41.99	70.42
PAT	2.45	4.49
Interest coverage (%)	1.21	1.17
AUM	302.33	458.90
Total Assets	378.15	544.28
Net NPA (%)	Nil	0.10
ROTA (%)	0.76	0.97

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures*	-	-	-	-	36.00	CARE BBB; Stable

* Not yet raised

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	75.00	CARE BBB; Stable	-	1)CARE BBB; Stable (09-Dec-19)	1)CARE BBB; Stable (05-Nov-18)	1)CARE BBB-; Stable (29-Sep-17)
2.	Debentures-Non Convertible Debentures	LT	43.00	CARE BBB; Stable	-	1)CARE BBB; Stable (09-Dec-19)	1)CARE BBB; Stable (05-Nov-18)	-
3.	Debentures-Non Convertible Debentures	LT	36.00	CARE BBB; Stable	-	-	-	-

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra

Contact no: +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – Ms. Gaurav Dixit

Group Head Contact no.-011-45333235/ +91-9717070079

Group Head Email ID- gaurav.dixit@careratings.com

Relationship Contact

Name: Ms. Swati Agrawal

Contact no: +91-11-4533 3200 / +91-98117 45677

Email ID: swati.agrawal@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**