Altum Credo Home Finance Private Limited

August 01, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	[Rating[1]	Rating Action
Long Term Bank Facilities	350.00 (Enhanced from 200.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Positive (Triple B Minus; Outlook: Positive)
Total Bank Facilities	**350.00 (₹ Three Hundred Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in rating assigned to long term bank facilities of Altum Credo Home Finance Private Limited (ACHFPL) factors in sustained growth in company's loan book while maintaining asset quality and improvement in profitability.

The rating continues to derive strength from adequate capitalisation in the initial stages of business backed by periodic capital infusion from institutional and other impact investors, comfortable liquidity profile along with limited and long term borrowings, experience of the promoters and management team, improving profitability metrics and adequate risk management system supported by digital integrated system which has helped the company maintain asset quality through the challenging environment of Covid-19 pandemic.

The rating continues to be constrained by limited track record of the company as the company started operations during FY18 (refers to period from April 01 to March 31) due to which the loan portfolio of the company is unseasoned, relatively small size of operations, moderate profitability and exposure to the under-banked low-income segment of borrowers with geographical concentration; albeit with some diversification due to the company's efforts to expand its presence in other states.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained growth in loan portfolio while maintaining the asset quality, comfortable capitalization level.
- Ability to improve profitability considering increase in leverage post scale up of loan portfolio.
- Geographical diversification of the loan portfolio.
- Diversification in the resource profile while maintaining the borrowing cost.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality parameters with Gross NPA ratio above 5%.
- Deterioration in capitalization levels with significant decline in cushion over regulatory minimum Capital Adequacy Ratio (CAR).
- Deterioration in profitability parameters on as sustained basis.
- Overall gearing exceeding 4 times.

Outlook: Positive

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Adequate capitalisation in the initial stages of business with investment from institutional and other impact investors

In the initial stages, the company has received capital from its promoters and has been able to raise equity capital from institutional and impact investors. The company started with a seed capital base of Rs.10 crore in FY17 and received equity capital funding of Rs.16 crore during FY18 from Mr. P. S. Pai (erstwhile Executive Chairman of the Murugappa group) as an early-stage investment. The company also raised equity capital from the Aavishkaar group to the tune of Rs.50 crore. During FY20, the company raised additional equity capital of Rs.40 crore by way of rights issue of equity shares.

In November, 2021, the company had another round of equity capital raise of Rs.88 crore led by Amicus Capital Partners who invested Rs. 50 crores along with existing investors. Mr. Pai and family and Aavishkaar group through its Aavishkaar Bharat Fund together invested Rs.38 crore.

Post the capital infusion, the shareholding of the promoters stood at 28.3% while shareholding of P.S. Pai and family at 33.26%, Aavishkar group's shareholding at 24.35% and Amicus Capital Partners' shareholding at 11.38% in the company on a fully diluted basis as on March 31, 2022.

The capital infusion has increased the company's tangible net worth which stood at Rs.225 crore as on March 31, 2022, and overall gearing stood at 0.50 times (P.Y.: 0.34 times) as on March 31, 2022, with the total debt of the company standing at Rs.112 crore (P.Y.: Rs.46 crore).

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The company has raised equity capital and expects to see increase in its leverage as it scales up its size of operations and grows its loan portfolio. The company plans to keep the overall gearing under 3 times in the near term. The company has plans to raise equity capital in the FY23 to support growth and to achieve significant scale post which it would increase the leverage.

Experienced promoters and management team
ACHFPL is promoted by three individuals Mr. Vikrant Bhagwat (Managing Director and Chief Executive Officer; MD & CEO), Mr. Ashish Tewari (Non-Executive Director) and Mr. Ganesh Rao (Investor Promoter) each having 25+ years of experience in retail assets lending, promoting and building microfinance businesses. The operations of the company are headed by Mr. Bhagwat and supported by Mr. Sanjay Tiwari as a founding team member and Chief Financial Officer (CFO) of the Company who has more than 20 years of experience in areas of corporate finance, business planning & strategy, treasury management at early-stage businesses. In last two years, the company has on-boarded senior management team across key functions such as business, credit and operations. While, since inception, the company had collection vertical head to look after the collections and recovery for the company.

Credit appraisal and monitoring systems supported by digital integrated system
ACHFPL has put in place credit appraisal and monitoring system and follows various risk-based assessment methodologies for credit assessment, various consumer metrics are used to arrive at the scoring model. Since inception, the entire process is technology driven with limited human inputs. Further, ACHFPL has a separate collections vertical which has helped to establish a robust collection process and regular customer connect. ACHFPL commenced it business with a policy of zero cash transactions and thus follows a cashless collection approach which is completely managed through digital payment gateway via NACH and other payment gateways.
The company has constituted its Risk Management Committee which is responsible for putting in place a risk management system, risk management policy and strategy to be followed by the Company and constitute Asset Liability Management Committee for review and monitor risk at regular intervals**.**
The company has been aligning its credit appraisal system in view of the Covid-19 pandemic with focusing towards salaried borrowers, non-salaried in essential services, cautious on lending to customers of impacted sectors with increased focus on Low Income Group (LIG) segment customers resulting in a moderate increase in ticket size. Further, the company continued to focus on providing home loan for self-construction of houses and witnessed a growth of 97.5% on annual basis in this segment. Home loans for self-construction of houses stood at Rs.135.77 crore as on March 31,2022 as compared to Rs.68.73 crore as on March 31,2021, as the company disburses the loan in stages depending on the stage of construction which enables it to monitor the loan better as compared to home loan for apartments. The proportion of home loan for self-construction to total AUM stood at 54.1% as on March 31,2022 as compared to 55.5% as on March 31, 2021.

Key Rating Weakness
Limited track record with small size of operations with geographical concentration
ACHFPL started disbursing loans in FY18, upon receiving license from NHB in June, 2017 and first seed funding in July, 2017. The company has disbursed Rs.313 crore since inception till March 31, 2022, and its AUM stood at Rs.251 crore as on March 31, 2022. The size of operations remains relatively smaller to other housing finance companies in the country.
ACHFPL's target customer segment is in outskirts of Tier II and Tier III cities and the company initially had presence in the states of Maharashtra, Tamil Nadu and Karnataka. During FY21, ACHFPL increased its geographical diversification by expanding its presence into 3 new states viz Rajasthan, Andhra Pradesh and Telangana taking the presence in six states and increased its branch network to 40 branches as on March 31, 2022 (25 branches as of March 31, 2021). The Company plans to increase its branch network to 50 by H1FY23. The geographical concentration relatively remains high with Maharashtra accounting for 46% (P.Y.: 59%) of loan book and the 3 new states constituting 19% (P.Y.: 2%) share of the loan book as on March 31, 2022.

Low seasoning of portfolio being in initial stages and moderate asset quality
The operations of the company are four years old with loan portfolio of Rs.251 crore and gross cumulative disbursements of Rs.313 crore as on March 31, 2022. Majority of the disbursements have happened in FY21 and FY22. The company has seen around two years seasoning and reported Gross NPA ratio and Net NPA ratio of 0.66% and 0.36% respectively as on March 31, 2022, as compared to 0.72% and 0.47% as on March 31, 2021. On a 1-year lag basis Gross NPA ratio stood at 1.35% as on March 31, 2022, as compared to 1.05% as on March 31, 2021. The Gross NPA ratio and Net NPA ratio as on June 30, 2022, stood at 0.74% and 0.47% respectively. The company has seen increase in slippages in the background of Covid-19 which impacted the customer segment of the company.
The company has maintained additional COVID-19 contingency provision of Rs.2.02 crore as on March 31, 2022. In addition, considering the low-income group customer section, the Company has revised its policy increasing the standard asset provision on home loans to 0.40% as against the regulatory requirement of 0.25%. The Company has done provision of 0.40% of Rs.0.96 crore on standard assets of Rs.231.91 crore as on March 31,2022. The company expects to see recoveries from the second half of FY23 with the Gross NPA ratio remaining below 1% by the end of the year. Movement of NPAs and deterioration in asset quality continues to be a key monitorable for the company.
The company is still in the initial stages of operations and loan book is largely unseasoned with only four full years of operations vis-à-vis average loan tenure of 15 years at a portfolio level and majority of loan growth happening last couple of years. ACHFPL's borrowers have modest economic profile, the borrower profile is relatively weaker and is highly susceptible to economic downturns; however, the secured nature of the loan book and relatively low Loan to Value ratios (average < 50%) reduces the risk to a larger extent.

Moderate resource profile
As on March 31,2022 the funding profile remains concentrated with borrowings from Banks constituting 47% and NBFCs constituting 30% of total borrowings and remaining portion is funded by low-cost funds from National Housing Bank (NHB). The Company has expanded its borrowings from banks in FY22. The company continues to maintain long term debt with average maturity of the borrowings above 5 years. The company has working capital finance by way of Cash Credit (CC) facility from banks of Rs.3 crore.

Moderate profitability
The net interest income increased by 48% y-o-y from Rs.15.23 crore in FY21 to Rs.22.55 crore in FY22 supported by 58% growth in interest income to Rs.26.53 crore in FY22 as compared to Rs.15.41 crore in FY21.
The operating expense doubled in FY22 to Rs.22.38 crore as FY21 witnessed muted operations on account of COVID-19 induced lockdowns and branch expansion in H2 FY22 (company opened 15 new branches increasing penetration of existing states and addition of employees to 372 as on March 31, 2022, as compared to 225 as on March 31, 2021). Accordingly, the PPOP has increased 12% to Rs.6.84 crore in FY22 as compared to Rs.6.12 crore in FY21 supported by increase in total income. Company has done provisions of Rs.0.78 crore, which is lesser than the previous year's Rs.2.71 crore, which included additional contingency provision of Rs.2.66 crore in FY21.
Company reported a PAT of Rs.4.47 crore with total income of Rs.36.43 crore in FY22 as compared to PAT of Rs.3.23 crore with total income of Rs.20.33 crore in FY21. ROTA declined from 1.90% in FY21 to 1.69% in FY22.

Exposure to the under banked segment of borrowers
More than 90% of customers belong to EWS and LIG income segment. ACHFPL's customer base consists of salaried customers (48% of AUM as on March 31, 2022), both formal and informal segment, and self-employed proprietors of small and medium enterprises (52% of AUM as on March 31, 2022). Since this segment is highly susceptible to the impact of economic downturn, maintaining good asset quality while increasing the scale of operations is a key sensitivity.

Liquidity: Strong
As per ALM statement dated March 31, 2022, the liquidity profile of the company is comfortable with positive cumulative mismatches in all the time buckets. The company's debt obligation outflows are around Rs.25.22 crore over next one year, against which the company has unencumbered cash & bank balances are around Rs.86.7 crore. Liquidity profile of the company is also supported by Rs.3 crore Cash Credit facility and undrawn term loans of Rs.30 crore. Further ACHFPL monitors the cumulative mismatch across all time buckets by establishing prudential limits with the approval of Board/Management Committee, further, as per the liquidity policy of the ACHFPL, in the normal course the ALM mismatch should not exceed 15% of the cash outflows in each time bucket. The average collection efficiency of the company for H2FY22 is 98%.

Analytical approach: Standalone

Applicable criteria:
CARE rating process
Policy on default recognition
Rating of Housing Finance Companies
Financial Ratios-Finance Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings

About the company

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23(UA)
Total operating income	20.33	36.43	14.12
PAT	3.23	4.47	2.21
Total Assets#	185.98	343.95	391.73
Net NPA (%)	0.47	0.36	0.47
ROTA (%)	1.90	1.69	2.40*

A: Audited   UA: UnAudited
#Total Assets adjusted for Intangible assets and DTA
*Annualised

Status of non-cooperation with previous CRA: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	-	350.00	CARE BBB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	350.00	**CARE BBB; Stable**	-	1)CARE BBB-; Positive (31-Jan-22) 2)CARE BBB-; Stable (20-Aug-21)	1)CARE BBB-; Stable (18-Jan-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-Long Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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