Press Release

Altum Credo Home Finance Private Limited

July 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	600.00 (Enhanced from 450.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Non-convertible debentures	20.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities and instruments of Altum Credo Home Finance Private Limited (ACHFPL) factors in the healthy capitalisation backed by the periodic capital infusion by institutional and other impact investors, the experienced promoter and management team, and the digitally integrated credit appraisal and collection systems. The rating also takes note of the improvement in the scale of operations, with assets under management (AUM) rising from ₹250.94 crore in FY22 to ₹467.15 crore in FY23, while maintaining asset quality metrices and stable profitability. The growth in business is supported by the expansion in the number of branches (40 as on March 31, 2022, to 53 as on March 31, 2023).

The rating continues to be constrained by the limited track record of the company, the relatively low seasoning of portfolio due to high growth witnessed in the last two fiscals ended March 31, 2023, the relatively small size of operations, and the limited but improving geographical diversification with the top three states contributing for 68% of the AUM as on March 31, 2023 (PY: 82% as on March 31, 2022). Additionally, CARE Ratings Limited (CARE Ratings) takes note of the company's focus on the target customer segment comprising borrowers in the economically-weaker section (EWS) and low-income group (LIG), which is vulnerable to economic downturns.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Any significant mobilisation of equity capital for further growth in business.
- Sustained growth in the loan portfolio while maintaining a gross non-performing assets (GNPA) ratio below 1.5%, profitability with return on total assets (ROTA) above 2.5%, and a comfortable capitalisation level.
- Significant improvement in the borrowing profile.

Negative factors

- Deterioration in the asset quality parameters with a GNPA ratio above 3%.
- Deterioration in the profitability parameters on a sustained basis.
- Overall gearing exceeding 4x.

Analytical approach: Standalone

Outlook: Stable

Detailed description of the key rating drivers

Key strengths

Healthy capitalisation with periodic investments from institutional and other impact investors

The company commenced its business in FY18 with a seed capital funding from PS Pai (erstwhile Executive Chairman of the Murugappa group). The company has been able to raise equity capital from institutional and impact investors on a regular basis. It raised equity capital from the Aavishkaar group to the tune of ₹50 crore and ₹14 crore from PS Pai, taking the total tangible net worth (TTNW) to ₹88 crore in FY19. In FY20, the company infused additional equity capital of ₹40 crore from PS Pai by way of rights issue of equity shares in November 2019. In November 2021, the company concluded Series B round of an equity capital raise of ₹88 crore led by Amicus Capital Partners who invested ₹50 crore and the balance ₹38 crore was invested equally by existing investors PS Pai and family and the Aavishkaar group, taking the net worth to ₹225 crore at the end of FY22. Thus, in the last five years, the company has demonstrated the ability to regularly capitalise the balance sheet to support business growth.

The overall gearing of the company stood at 1.30x (PY: 0.5x) as on March 31, 2023, with the total debt (TD) of the company standing at ₹305 crore (PY: ₹112 crore). The company reported a capital adequacy ratio (CAR) of 81.31% (Tier-I CAR: 80.23%) as on March 31, 2023, vis-à-vis 139.01% (Tier-I CAR: 137.76%) as on March 31, 2022. As on March 31, 2023, the company's tangible net worth (TNW) stood at ₹235 crore (PY: ₹225 crore). CARE Ratings expects the company to grow its scale of operations by optimally leveraging the capital structure while keeping the overall gearing under 3x in the medium term.

Experienced promoters and management team
ACHFPL is promoted by seasoned professionals having over 25 years of experience in retail assets lending across geographies. The operations of the company are headed by Vikrant Bhagwat, Managing Director and Chief Executive Officer (MD & CEO) and supported by Sanjay Tiwari as a founding team member and Head-Corporate Strategy and Finance of the company who has more than 20 years of experience, predominantly in the banking, financial services and insurance (BFSI) industry in areas of corporate finance, business planning and strategy, treasury management at strategy roll out at early-stage businesses. The company has a stable, experienced leadership team across functions.

Credit appraisal and monitoring systems supported by a digital integrated system
ACHFPL has put in place a credit appraisal and monitoring system and follows various risk-based assessment methodologies for credit assessment along with various consumer metrics to arrive at the scoring model for credit decisions. Since inception, the entire loan process is technology-driven with limited human inputs. In FY23, the technology stack was upgraded to a loan IT platform enriched with multiple application programming interfaces (APIs) integration, new-age omnichannel functionality enabling more digitisation of data input, better process control, and enhanced efficiency.

Furthermore, ACHFPL has a separate collection vertical, which has helped establish a robust collection process and regular customer connection. ACHFPL commenced its business with a policy of zero cash transactions across the loan life-cycle transactions, and thus, follows a cashless collection approach, which is completely managed through via National Automated Clearing House (NACH) and various digital 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. To manage the interest rate sensitivity and liquidity risks, the company uses asset-liability management models, which enable them to measure and monitor risks and provide suitable strategies for their decision-making.

The company has aligned its credit appraisal system in view of the COVID-19 pandemic by focusing on salaried borrowers and non-salaried in essential services and is cautious on lending to customers of impacted sectors, with an increased focus on the LIG segment customers, resulting in a moderate increase in ticket size. Furthermore, the company continued to focus on providing home loans for self-construction of houses and witnessed a growth of 116% on an annual basis in this segment. The company has focused on building retail home loan portfolios and ringfenced loan-against-property (LAP) loans below 20%.

Home loans for self-construction of houses stood at ₹293.67 crore as on March 31, 2023, as compared to ₹135.77 crore as on March 31,2022, as the company disburses the loans in stages depending on the stage of construction, which enables it to monitor the loans better as compared to home loans for apartments. The proportion of home loans for self-construction to the total AUM stood at 63% as on March 31, 2023, as compared to 54% as on March 31, 2022, with an average ticket size of ₹8.48 lakh.

Key weaknesses
Limited track record with relatively small size of operations and geographical concentration
ACHFPL started disbursing loans in FY18, upon receiving the license from the National Housing Bank (NHB) in June 2017 and the first seed funding in July 2017. The company has disbursed ₹252 crore in FY23 (PY: ₹148 crore), and ₹523.58 crore since inception. Its AUM stood at ₹467.15 crore as on March 31, 2023 (PY: ₹250.94 crore). ACHFPL's target customer segment is in the outskirts of Tier-II and Tier-III cities and the company initially had a presence in the states of Maharashtra, Tamil Nadu and Karnataka. During FY21, ACHFPL increased its geographical diversification by expanding its presence into three new states, viz, Rajasthan, Andhra Pradesh and Telangana, taking its presence in six states, and increased its branch network to 53 branches as on March 31, 2023 (40 branches as on March 31, 2022). The geographical concentration has decreased relatively over the last year, with Maharashtra accounting for 31% (March 31,2022: 46%) of the loan book and the top three states constituting 68% (March 31, 2022: 82%) share of the loan book as on March 31, 2023.

Low seasoning of portfolio being in initial stages and high growth
The company's operations span across six years with AUM of ₹467 crore and cumulative disbursements of ₹524 crore since inception as on March 31, 2023. The majority of the disbursements happened in FY22 and FY23, and hence, the seasoning remains low. The company has reported a GNPA ratio and net NPA (NNPA) ratio of 0.59% and 0.22%, respectively, as on March 31, 2023, as compared to 0.66% and 0.36% as on March 31, 2022. The company has seen an increase in slippages, which were COVID-19 induced, as it predominantly impacted the customer segment of the company. The company has maintained an additional COVID-19 contingency provision on standard assets of ₹1.18 crore as on March 31, 2023, considering the focus on the LIG customer segmentation. As a prudent measure, 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 a provision of 0.40% of ₹3.72 crore on standard assets of ₹464.49 crore as on March 31, 2023.

The loan book is largely unseasoned, with only five full years of operations vis-à-vis an average loan tenure of 15 years at a portfolio level and the majority of loan growth happening in the past couple of years. ACHFPL's borrowers have a modest economic profile, with the borrower profile being relatively weaker and 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. CARE Ratings expects the GNPA ratio to remain below 1% for FY24. The movement of NPAs and deterioration in asset quality continues to be a key monitorable for the company.

Moderate resource profile

As on March 31, 2023, the funding profile remains moderately concentrated, with borrowings from banks constituting 35% and borrowings from non-banking financial companies (NBFCs) constituting 44% of the total borrowings and the remaining portion funded by low-cost funds from the NHB. The company has expanded its lender base from seven institutions in FY22 to 17 institutions in FY23. The company avails long tenure borrowings from the NHB (7 to 10 years), SBI (90 months) and LIC HFC (seven years), among others, which help in balancing the ALM. The average cost of borrowings stood at 10.10% as on March 31, 2023, as against 9.15% as on March 31, 2022.

Moderate profitability
The net interest income (NII) increased by 76% y-o-y from ₹19.33 crore in FY22 to ₹34.1 crore in FY23, supported by 108% growth in interest income to ₹55.15 crore in FY23 as compared to ₹26.53 crore in FY22. The operating expenses increased to ₹38.62 crore in FY23 from ₹22.38 crore in FY22, mainly due to branch expansion and increasing the number of employees in FY23 (the company opened 13 new branches, increasing the penetration of the existing states, and addition of employees, taking the total count to 506 as on March 31, 2023, as compared to 372 as on March 31, 2022). Accordingly, the pre-provision operating profit (PPOP) increased by 84% to ₹12.62 crore in FY23 as compared to ₹6.84 crore in FY22, supported by an increase in total income. The company has made provisions of ₹0.75 crore, which is in line with the previous year's ₹0.78 crore but it is significantly lower compared to ₹2.71 crore in FY21 (higher on account of COVID provisioning on standard assets). The company reported a profit-after-tax (PAT) of ₹8.96 crore with a total income of ₹72.29 crore in FY23 as compared to a PAT of ₹4.47 crore with a total income of ₹36.42 crore in FY22. The ROTA and return on net worth (RONW) improved from 1.69% and 2.5% in FY22 to 2.00% and 3.9% in FY23, respectively.

Exposure to the under banked segment of borrowers
More than 90% of the customers belong to the LIG and EWS income segments. ACHFPL's customer base consists of salaried customers (42.5% of the AUM as on March 31, 2023), both formal and informal segments, and self-employed proprietors of small and medium enterprises (SMEs) (57.5% of the AUM as on March 31, 2023). These customers are generally under-served and unserved for long-term housing finance. Since this segment is highly susceptible to the impact of economic downturns, maintaining good asset quality while increasing the scale of operations is a key sensitivity.

Liquidity: Adequate
As per the ALM statement dated March 31, 2023, the liquidity profile of the company is comfortable with positive cumulative mismatches up to one year. The company's debt obligation outflows are around ₹65 crore over the next year, against which the company has unencumbered cash and bank balances of around ₹75 crore. The liquidity profile of the company is also supported by ₹1.1 crore cash credit facility. Furthermore, ACHFPL monitors the cumulative mismatches across all the time buckets by establishing prudential limits with the approval of the board or management committee. Furthermore, as per the liquidity policy of 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 FY23 is 97.33%.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Housing Finance Companies
Policy on Withdrawal of Ratings

About the company and industry

ACHFPL is a housing finance company registered with the NHB. Headquartered at Pune, the company currently has a presence in six states – Maharashtra, Tamil Nadu Karnataka, Rajasthan, Andhra Pradesh and Telangana, with 53 branches predominantly in Tier-II and Tier-III cities. The company is promoted by seasoned professionals with diverse experience in retail assets lending. ACHFPL was incorporated in September 2016 and received the license from the NHB on June 01, 2017. The company's focus is to build a retail home loan asset book largely across the LIG and EWS income segments who are first-time home buyers. ACHFPL's geographical focus is mainly on Tier-II and Tier-III cities. More than 90% of the customers belong to the EWS and LIG income segments.

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry

Financial Services	Financial Services	Finance	Housing Finance Company

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	20.33	36.43	72.29
PAT	3.23	4.47	8.96
Total Assets	185.98	343.95	550.47
Net NPA (%)	0.47	0.36	0.22
ROTA (%)	1.90	1.69	2.00

A: Audited UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE497W07011	07-02-2023	12.50%	14-02-2028	20.00	CARE BBB; Stable
Fund-based-Long Term	-	-	-	-	600.00	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 2023-2024	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

1	Fund-based-Long Term	LT	600.00	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Feb-23) 2)CARE BBB; Stable (01-Aug-22)	1)CARE BBB-; Positive (31-Jan-22) 2)CARE BBB-; Stable (20-Aug-21)	1)CARE BBB-; Stable (18-Jan-21)
2	Debentures-Non-Convertible Debentures	LT	20.00	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Feb-23)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Debentures-Non-convertible debenture	Not applicable
II. Bank facilities	1. Annual rating of the company falls below BBB (stable) 2. GNPA crosses 2.5% of the portfolio. 3. NNPA crosses 1.00% of the portfolio. 4. Debt-to-equity ratio exceeds 5:1. 5. CAR decreases below 20%
B. Non-financial covenants	
I. Debentures-Non-convertible debenture	Not applicable
II. Bank facilities	1. Facilities may be recalled in case Vikrant Bhagwat steps down from the board of the company or is no longer at an executive position of the company. 2. Annual rating of the company falls below BBB (Stable).

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple
2	Fund-based-Long Term	Simple

Annexure-5: Lender details

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

Note on the 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Aakash Jain Director **CARE Ratings Limited** Phone: +91-20-4000 9090 E-mail: aakash.jain@careedge.in	Sudhakar P Director **CARE Ratings Limited** E-mail: p.sudhakar@careedge.in Nikhil Hardikar Associate Director **CARE Ratings Limited** E-mail: Nikhil.Hardikar@careedge.in Shubham Deokar Rating Analyst **CARE Ratings Limited** E-mail: Shubham.Deokar@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in