Ummeed Housing Finance Private Limited

March 10, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	245.00 (Enhanced from 75.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**245.00 (Rs. Two Hundred Forty-Five Crore Only)**		
Non-Convertible Debentures	43.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	36.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	**79.00 (Rs. Seventy-Nine Crore Only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation of the long-term instruments of Ummeed Housing Finance Private Limited (UHFPL) factors in the strong loan book expansion during FY20 with AUM growing by 50% Y-o-Y to Rs.451.4 crore end Mar-2020, comfortable capital structure backed by periodic capital infusion from promoters and private equity investors, low albeit improving profitability metrics and experienced promoters and management team. The ratings are also supported by UHFPL's adequate liquidity, stable risk management systems, manageable asset quality with reported GNPA% of 0.60% and NNPA% of 0.51% end Dec-2020 and diversified resource profile with banking relations with 25 banks, NBFCs and other financial institutions (FIs).

These rating strengths are, however, partially offset by short track record of operations that remains to be tested across macro-economic cycles, low seasoning of loan portfolio as large part of loan books is built over past three financial years and overall track record of nearly five 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) and a weak margin business model as currently the operating expenses for the company are on a higher end.

Rating sensitivity

Going forward, the ability of the company to maintain healthy operational efficiency, 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

- Improvement in profitability ratios with return on net-worth reaching 10% while maintaining low credit costs (below 1%)
- 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 due to margin compression
- 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 December 31, 2020 (on fully diluted basis). He has an 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, Mr Sachin Grover, Chief Operating Officer, who has over 20 years of mortgage experience. The operating team of UHFPL 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 held 70.67% shares while largest PE investor i.e. Morgan Stanley's NHPEA held 23.18% stake end December 31, 2020.

In December 2020, Lok Capital Growth Fund, one of the earliest PE investors in UHFPL partially sold off its stake to an Indian PE firm CX Partners thereby bringing down its shareholding to 4.97% end Dec-20 (from 18.47% as on Jun-20). CX Partners acquired 13.5% shareholding in UHFPL via its two subsidiaries i.e., Thyme Private Limited (based in Mauritius, held 11.64% of stake end Dec 2020) and CX Alternative Investment Fund (1.86%)

Healthy capitalization backed by periodic equity infusions provide adequate headroom for growth
UHFPL 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 Rs 255 crore via primary market 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 77% end March 31, 2020 as against 56.32% as on March 31, 2019. Gearing levels of the company stood low at 1.08 times end Mar-2020 (1.12 times as on Jun-20) down from 1.77 times Mar-2019.

End December 31, 2020, tangible net-worth of the company increased to Rs 263.5 crore as compared to Rs 256.1 crore as on March 31, 2020 on account of positive internal accruals. Although in the absence of any primary round of equity infusion in current fiscal coupled with rise in loan book to Rs 545.9 crore as on Dec-20 (Rs 451.4 crore as on Mar-20), the overall capital adequacy ratio (CAR) of the company has slightly moderated to 67.47%, however it is still comfortably above the statutory minimum of 15%. Overall gearing of UHFPL marginally increased to 1.31 times as on Dec-20 from 1.02 times as on March 31, 2020 on account of 30% rise in borrowings to Rs 346.4 crore during the same period. With the incremental business being funded out of a mix of equity and borrowings, the gearing is expected to rise from the current low levels. However, maintenance of gearing level below 2.5 times remains a key sensitivity as greater leverage may adversely affect company's profitability metrics

Strong growth in loan portfolio
End fiscal 2020, UHFPL's assets under management (AUM) stood at Rs. 451 crores up by 50% over Rs 302.3 crore end March-2019 and from Rs.107 crores as on Mar-18 registering a compounded annual growth rate (CAGR) of 63% for past three years.
In line with its strategy of increasing higher yield, shorter tenured business loans, the company disbursed 26.7% (13.6% previous year) of its total loans during FY20 towards business loan segment and 14.2% (18.4% previous year) towards LAP while maintaining the ratio mix of HL: non-HL portfolio consistent at about 66:34. Being an affordable housing financing entity, the company maintains small ticket sizes with an average ticket size at a close to Rs.8-9 lakhs. Although in the last two years, some transition towards higher ticket -loans has been registered with the share of loans above Rs 20 lakhs increasing to 12.7% of AUM end fiscal 2020 (13.5% ending July-20) as against 6.8% end fiscal 2018. Total disbursement during FY20 stood at Rs.258 crores similar to previous year's Rs.259 crores due to lower disbursements in Q4FY20 (Rs 76.1 crore as against Rs 94.5 crore worth of disbursements in Q4FY19).

End December 31, 2020, AUM of the company grew to Rs 546 crore driven by higher disbursements towards the housing loan category. However, the share of housing loan to the overall AUM has slightly declined gradually from 65.4% in Mar-20 to 63.8% in Dec-20, while the share of higher yielding segments i.e. business loans and short-term business loans has increased to 13.1% and 3.3% respectively in Dec-20. Overall CARE does not expect any significant change in business mix of UHFPL since as per RBI's guidelines, an HFC has to ensure that housing finance constitutes at least 60% of its total assets (netted off by intangible assets). For 9M FY21, UHFPL recorded disbursements of Rs 144.73 crore, down 25% as compared to Rs 193.07 crore in 9MFY20 due to lower disbursements in H1FY21 impacted by lower housing loan demand exacerbated by COVID-19 pandemic.

Well diversified resource profile
UHFPL has a fairly well diversified funding profile with resources raised from various sources such as private sector banks, foreign-currency denominated NCDs, rupee denominated NCDs (listed and unlisted), funding via direct assignment and securitization transactions, external commercial borrowings (ECB) and term loans from other financial institutions. As on December 31, 2020, UHFPL's total borrowings were Rs 346.4 crore up from Rs.261.3 crores as on March 31, 2020 thereby supporting strong loan growth registered by the company. The company has banking relationship with more than 25 bank/FIs and of the total borrowings of Rs 346.4 crore, outstanding bank borrowings stood at Rs.231.0 crore (67% of total borrowing), ECB transactions of Rs.37.2 crores (11%) and NCDs of Rs.78.2 crores (22%).

Adequate risk management and control systems
UHFPL 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
UHFPL was incorporated in January, 2016 and was extended the license to commence operations from NHB on 13th July, 2016. The company has completed around five full years of operations and is still in its initial years compared to the broader housing finance industry. Also, given the comparatively longer-tenured nature of its loan portfolio and with majority of the loan-book building process happening in the last three years only, loan portfolio of UHFPL lacks seasoning since housing loans are typically longer tenured. Loan book of UHFPL grew from Rs 302.3 crore in Mar-19 to Rs 451.4 crore as on Mar-20 and further to Rs 585.9 crore as on Dec-20. UHFPL's loan book comprised housing loans (63.8% of loan book as on Dec-2020), loan against property (19.8%) and business loan (13.1%). 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 and secured long term and short-term business loans, which made up 3.3% of AUM as on Dec-20. This is being done to increase the margins while simultaneously managing asset liability mismatches. However, since majority of the book-building process has taken place in the last couple of years and new business loan products were launched in early FY20 only, the effect of longer-tenure loans on the asset quality of the company is yet to be seen.

Moderate profitability
End fiscal 2020, UHFPL reported almost twofold rise in its profit after tax (PAT) to Rs 4.67 crore (mainly due to a smaller base). Given UHFPL's small, albeit expanding scale of operations, the company's profitability remains moderate with ROTA of 1.02% and RONW of 2.41% during FY20. Also, NIM% (as % of average total assets) of the company has declined marginally to 5.64% during FY20 from 6.40% over previous year. However, the company has been improving its cost efficiency with operating expenses (as a % of average total assets) declining to 6.84% in FY20 as against 8.64% previous year. Overall at 6.7%, the PAT margins improved from 5.8% in FY19.

End September 30, 2020, UHFPL reported PAT of Rs 4.59 crore (up 6% Y-o-Y) on a total income of Rs 41.09 crore (up 15% Y-o-Y) for H1FY21, driven by margin expansion as the company increases share of higher yielding business loans in its loan portfolio, leading to higher NIM of 6.74%. Also, the operating expenses (as a % of average total assets, annualized) moderated further to 5.95%, thus leading to higher profit margins.

While the operating expenses have moderated, they still remain high on a peer-to-peer basis and continue to remain a hurdle for bottom line growth. The company has higher share of its portfolio mix under lower yield housing loans and has relatively higher borrowings costs leading to margin pressure. While a shift towards higher yield business loans coupled with increased reliance on borrowings from NHB and public/private sector banks may help improve margins, a sustainable improvement in operating expenses cost and controlled credit costs (below 1%) is imperative to improve company's bottom line over medium term and hence remains a key rating sensitivity.

Low seasoning of loan portfolio with exposure to vulnerable borrower segment
UHFPL's portfolio is largely unseasoned with around five full years of operations vis-à-vis average loan tenure of 12 years at a portfolio level and majority of loan growth happening in the last three years itself. As a result, owing to low seasoning of the loan portfolio and risky borrower profile, UHFPL reported a rise in softer delinquencies with 30+ and 60+ dpd at 1.46% and 0.95% respectively end Dec 2020 thereby translating into marginal rise in reported asset quality metrics with gross NPA and net NPA percentage at 0.60% and 0.51% respectively as on Dec-20 (increasing from 0.12% and 0.10% respectively as on Mar-20). The rise in asset quality stress was on the back of higher slippages arising due to the impact of COVID-19 pandemic on housing loan industry and small businesses. Although CARE takes cognizance of the fact that collection efficiency of the company has registered a strong recovery and bounced back to ~97% end December 2020, which was excluding pre-payments received during the period.

UHFPL 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 UHFPL'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 retails segment also remains untested. Although CARE draws comfort from the fact that UHFPL 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%**.**

High 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 December 31, 2020, largely unchanged from fiscal 2020. District-wise concentration also remains high with company's top seven districts together constituting nearly 65% (70% as on Mar-20) of portfolio with Jaipur and Chandigarh together forming more than a third of the portfolio. Currently UHFPL has 28 branches spread over 4 states. 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
As per the ALM statement dated September 30, 2020, there were negative cumulative mismatches of Rs 45 crore in the medium term (1-3 years) time bucket owing to lesser asset inflows as compared to scheduled outflows. Also, the negative cumulative mismatches are on account of assumption of early Put/Call option execution at 36 months for NCDs having an original maturity of 74 months. However, the liquidity profile draws comfort from surplus liquidity of Rs 197 crore in the form of cash balances and investments.

Covid-19 impact
Owing to COVID-19 pandemic and the following lockdown, operations of the company were affected as it registered de-growth in disbursements for H1FY21 to Rs 65.2 crore (down 55% Y-o-Y). However, post Sep-20, with resurgence in demand for housing loans and business loans, UHFPL reported disbursements of Rs 79.5 crore for Q3FY21, which was 5% higher than pre-COVID levels of Q3FY20. Also, the collection efficiency of the company has normalized to pre-COVID levels i.e. 97% for the month of January-2021.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE Methodology for Non-Banking Financial Companies
Financial Sector –Financial Ratios

About the Company
Ummeed Housing Finance Pvt Ltd (UHFPL) is a housing finance company (HFC) incorporated in January 2016. UHFPL 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. UHFPL currently operates through 28 branches spread over 4 state Delhi NCR, Rajasthan, Haryana and Uttar Pradesh. UHFPL has disbursed loans to around 7,393 borrowers with an outstanding loan portfolio of Rs.546 crore as on December 31, 2020. UHFPL's portfolio has an average ticket size of ~Rs.8 Lakh having tenure of 5-20 years with average LTV of 44%.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total Income	41.99	70.12
PAT	2.45	4.67
Interest coverage (%)	1.21	1.17
AUM	302.33	451.4
Total Assets	378.15	538.82
Net NPA (%)	Nil	0.10
ROTA (%)	0.93	1.02

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
Fund-based - LT-Term Loan	-	-	-	-	245.00	CARE BBB+; Stable
Debentures-Non Convertible Debentures	INE870W07019 INE870W07027 INE870W07035 INE870W07043	-	-	-	43.00	CARE BBB+; Stable
Debentures-Non Convertible Debentures		-	-	-	36.00	CARE BBB+; Stable

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	245.00	CARE BBB+; Stable	1)CARE BBB+; Stable (18-Sep-20)	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 (18-Sep-20)	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	1)CARE BBB+; Stable (18-Sep-20) 2)CARE BBB; Stable (22-Jun-20)	-	-	-

Annexure-3: Complexity level of instruments

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

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. Shubha Bhanu
Group Head Contact no.-011-45333235/ +91-9172070325
Group Head Email ID- shubha.bhanu@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.

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