Ummeed Housing Finance Private Limited

September 18, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	75.00 (Rupees Seventy Five crore only)	CARE BBB+; Stable (Triple B plus, Outlook: Stable)	Revised from CARE BBB; Stable (Triple B, Outlook: Stable)
Non-Convertible Debentures	43.00 (Rupees Forty Three crore only)	CARE BBB+; Stable (Triple B plus, Outlook: Stable)	Revised from CARE BBB; Stable (Triple B, Outlook: Stable)
Non-Convertible Debentures	36.00 (Rupees Thirty Six crore only)	CARE BBB+; Stable (Triple B plus, Outlook: Stable)	Revised from CARE BBB; Stable (Triple B, Outlook: Stable)
Total	**154.00 (Rupees One Hundred and Fifty four crore only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The rating revision of the long-term instruments of Ummeed Housing Finance Private Limited (UHFL) factors in the strong loan book expansion during FY20 with AUM growing by 49% Y-o-Y to Rs.451.4 crore 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 strong liquidity, stable risk management systems, healthy asset quality with marginal GNPA% of 0.11% and NNPA% of 0.10% end June-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, 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) and a weak margin business model as currently the operating expenses for the company are on a higher end.

Disruptions caused by countrywide lockdown crippled most economic and commercial activities across the country as has been depicted by various high frequency indicators moving into the red during these months. Although the government had exempted certain select activities pertaining to agriculture and related, banking including NBFCs and HFCs, construction activities in rural areas from the lockdown restrictions, these activities have remained muted. Subsequently in view of the current challenging economic environment, the asset quality remains a key sensitivity. However, CARE also takes note of the fact that UHFL has sufficient capital buffers to absorb any asset side challenges. Also the company has seen a rebound in its key metrics with collection efficiency touching almost pre covid levels.

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

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

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, who 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 investor i.e. Morgan Stanley's NHPEA holds 23.18% stake end March 31, 2020

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 Rs 299 crore (including secondary sale worth Rs 44 crore) 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. Post the recent round of capital infusion of Rs 164 crore during Q4FY20 (from Morgan Stanley PE along with participation of existing investor), UHFL's tangible net-worth (including CCPS) improved to Rs 255 crore as on March 31, 2020 as against Rs 133.50 crore an year ago. This equity boost has provided the company wider headroom to expand its loan book. 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 remaining below 2.5 times remains a key sensitivity as greater leverage may adversely affect company's profitability metrics

Strong business growth during FY20
End fiscal 2020, UHFL's assets under management (AUM) stood at Rs. 451 crores up by 49% 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. As on June 30, 2020, the company AUM stood at Rs 459 crore, almost unchanged from previous quarter due to nation-wide lockdown that was imposed end March 2020. Of the total AUM as on June 30, 2020, the housing loan (HL) book stood at Rs.303.1 crores (66.1% of AUM) followed by loan against property (LAP) at Rs.88.6 crores (19.3% of AUM) and rest towards non-housing business loans at Rs.68.57 crores (14.6% of AUM) which includes the higher yielding business loans and small-ticket business loans.

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). In line with Reserve Bank of India (RBI)'s move to allow banks, NBFCs and HFCs to offer six month moratorium to borrowers (till Aug 31,2020) company had 15% of its book under moratorium end June 2020 that came down to 7% as on August 31, 2020 .

Well diversified resource profile
UHFL has a fairly well diversified funding profile with resources raised from various sources such as private sector banks, NCDs, rupee denominated NCDs (listed and unlisted), external commercial borrowings (ECB) and term loans from other financial institutions. UHFL's total borrowings were Rs.261.3 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 June 30, 2020, the company has banking relationship with more than 25 bank/FIs and had total borrowings of Rs.293 crore, of which outstanding bank borrowings stood at Rs.215.7 crore (73.6% of total borrowing), ECB transactions of Rs.37.2 crores (12.7%) and NCDs of Rs.40.19 crores (13.7%). 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. End June 30, 2020, concessional funding from NHB (special refinance and LIFT scheme) constituted 15% of total borrowings of UHFL. 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 as a part of the COVID-19 – Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. CARE has not recognized this instance as a default, as the same is permitted by the RBI as part of the relief measures announced recently. The non-recognition of default for the payment of principal/interest is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 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.451 crores end March 31, 2020 up from Rs.302.3 crore as on March 31, 2019. UHFL's loan book comprised housing loans (66.1% of loan book as on March-2020), loan against property (19.3%) and business loan (14.6%). 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. 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
Ending fiscal March 31, 2020, UHFL reported almost twofold rise in its profit after tax (PAT) to Rs 4.67 crore (mainly due to a smaller base). Given UHFL'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.

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
UHFL's portfolio is largely unseasoned with only 4 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 couple of years itself. As a result, the company's asset quality trends are yet to be established. The company has registered marginal delinquency with GNPA% of 0.11% and PAR 30+DPD of 0.25% as on Jun-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. Although CARE takes cognizance of the fact that collection efficiency of the company has registered a strong recovery and bounced back to 93% end Aug 2020, of which 99.9% of the collection was from current collection and rest was overdue.

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 retails 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%**.**

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 March 31, 2020. District-wise concentration also remains high with company's top seven districts together constituting nearly 70% of portfolio with Jaipur and Chandigarh together forming more than a third of the portfolio. 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. Although the company has recalibrated its expansion plans in the light of Covid pandemic situation and expect operations to be at the same level as pre-Covid.

Liquidity: Adequate
As on June 30, 2020 the company had sufficient liquidity in the form of fixed deposits and mutual fund investments amounting to Rs 196 crore along with undrawn credit lines from banks to the tune of Rs 13.4 crores which when seen against the debt repayments and operating expenses for next one year is sufficient enough. Also as per the ALM statement dated June 30, 2020, there are no negative cumulative mismatches across all time buckets as it gains support from the liquidity cushion the company has.

Covid-19 impact
Due to COVID-19, per management, overall credit quality profile of some customers has been affected due to which the company has opted to disburse loans cautiously and hence has shifted its strategy from aggressive lending to cautious lending for FY21, expecting same level of disbursements as FY20. On an operational performance basis, UHFL has planned not to open any new branches this year as against their earlier target to reach 30 hubs by end of FY21 from the current 25 hubs, however the company has remained profitable with an improvement in PAT margins as it reported a PAT of Rs 2.53 crore for Q1FY21 (Unaudited) on a total income of Rs 19.14 crore. Also, as per latest data, the collection efficiency of the company has registered a V shaped recovery and bounced back to 93% end Aug 2020, of which 99.9% of the collection was from current collection and rest was overdue.

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 6,070 borrowers with an outstanding loan portfolio of Rs.459 crore as on June 30, 2020. UHFL'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	451.20
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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	75.00	CARE BBB+; Stable
Debentures-Non Convertible Debentures	-	-	-	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	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	1)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.*

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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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