

Aspire Home Finance Corporation Limited

July 02, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank Lines Programme	3,000.00	3,000.00	[ICRA]A+ downgraded from [ICRA]AA-; outlook revised from negative to stable
Non-Convertible Debenture programme	1,900.00	1,900.00	[ICRA]A+ downgraded from [ICRA]AA-; outlook revised from negative to stable
Subordinated Debt Programme	100.00	100.00	[ICRA]A+ downgraded from [ICRA]AA-; outlook revised from negative to stable
Market Linked Debenture Programme	300.00	300.00	PP-MLD[ICRA]A+ downgraded from PP-MLD [ICRA]AA-; outlook revised from negative to stable
Commercial Paper Programme	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Total	6,300.00	6,300.00	

Rating action

ICRA has downgraded the long-term rating from [ICRA]AA- (pronounced ICRA double A minus) to [ICRA]A+ (pronounced ICRA A plus) for the Rs. 3,000 crore bank lines programme, Rs. 1,900 crore non-convertible debenture programme and Rs. 100 crore subordinated debt programme of Aspire Home Finance Corporation Limited (Aspire). ICRA has also downgraded the long-term rating from PP-MLD[ICRA]AA- (pronounced principle protected market linked debenture ICRA double A minus) to PP-MLD[ICRA]A+ (pronounced principle protected market linked debenture ICRA A plus) for the Rs. 300 crore market linked debenture programme of the company. The outlook on the long-term ratings has been revised from negative to stable. ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 1,000 crore commercial paper programme of Aspire.

Rationale

The rating downgrades take into account continued slippages in the portfolio in the past quarter resulting in further deterioration in the company's asset quality. The company also wrote off loans aggregating to Rs. 72 crore during the year. The deterioration in asset quality was driven by gradual seasoning of portfolio and weakening of liquidity position of borrowers. The delays in setting up of dedicated recovery and collections infrastructure further aggravated the same.

The asset quality in H1 FY2019 is expected to remain under pressure with the seasoning of the legacy book. However, ICRA notes that the company has strengthened its processes and systems, including underwriting norms and organization structure, and has also scaled up its collections and resolution team, the benefits of which should accrue from the second half of the fiscal. ICRA also draws comfort from the promoter group's stated commitment and increased involvement towards this venture and expects capital to be available in a timely and adequate manner, should there be a requirement.

The ratings continue to factor the strong parentage of the company and the group's robust financial profile. Aspire is a step-down subsidiary of Motilal Oswal Financial Services Limited (rated [ICRA]AA with stable outlook), the flagship entity of the group, which directly and indirectly holds 96% equity in the entity as on March 31, 2018. The ratings also factor in the company's focus on the housing finance segment with no immediate plans to venture into the loan against property (LAP) or builder loan segments, and its healthy capital adequacy (CRAR of 37.88% as on March 31, 2018 compared to 31.37% as on March 31, 2017) supported by the regular equity infusions by the promoter group. The strengths are however partially offset by the geographical concentration of operations with Maharashtra and Gujarat accounting for 82% of the overall portfolio as on March 31, 2018. But, the company is diversifying its geographical presence with rising share of incremental disbursements in Rajasthan, Tamil Nadu and Karnataka. ICRA also takes note of the impact of deteriorating asset quality indicators on the company's profitability in FY2018 with the return on equity (ROE) and return on assets (ROA) declining to 4.40% and 0.65% respectively in FY2018 from 16.72% and 2.35% respectively in FY2017. Going forward, the company's ability to achieve a material improvement in its asset quality while scaling up the loan book would be a key rating sensitivity.

Outlook: Stable

ICRA believes that Aspire will continue to benefit from the capital support and board level supervision from Motilal Oswal group. While assigning stable outlook, ICRA draws comfort from the from the promoter group's stated commitment and increased involvement in Aspire and expects capital to be available in a timely and adequate manner, should there be a requirement. The outlook may be revised to 'Negative' in case of higher than expected deterioration in asset quality indicators and consequent deterioration in earnings profile. The outlook may be revised to 'Positive' if the company demonstrates a consistent track-record of healthy asset quality with the further scaling up and seasoning of the portfolio.

Key rating drivers

Credit strengths

Strong parentage; committed capital support and board level supervision from Motilal Group- Aspire benefits from the strong ultimate parentage being a part of the Motilal Oswal Group. Aspire is a step-down subsidiary of Motilal Oswal Financial Services Limited (rated [ICRA]AA with stable outlook), the flagship entity of the group, which directly and indirectly holds 96% equity in the entity as on March 31, 2018. Motilal Oswal Group's robust performance is reflected in the diversity of the businesses the group is in and the financial performance year on year (MOFSL reported a net profit of Rs. 541 crore in FY2018, an increase of 50% over FY2017). MOFSL has demonstrated strong commitment to Aspire, in terms of capital support (Rs. 650 crore infused in Aspire till date), managerial support and board level supervision. The group infused Rs. 150 crore of capital in Aspire in FY2018, supported by which the company reported an improvement in gearing (6.26 times to 5.16 times) despite a Rs. 72 crore write-off during the year. ICRA expects Aspire to continue to receive timely and adequate capital support from the promoter group should there be a requirement. The support of a strong parent coupled with the demonstrated track-record of capital infusion provides comfort from a rating perspective. The company also enjoys enhanced financial flexibility supported by this association with the group.

Comfortable capitalisation profile; gearing expected to increase with scale – Aspire's regulatory capitalisation continues to remain healthy with a reported capital to risk weighted assets ratio (CRAR) of 37.88% as on March 31, 2018, as against 31.37% as on March 31, 2017. The improvement in the current fiscal was driven by Rs. 150 crore equity infusion by the Motilal Oswal Group in FY2018. Further, this also resulted in a moderation in the company's gearing to 5.16 times as on March 31, 2018, as compared to 6.26 times as on March 31, 2017. On adjusting for liquid investments and cash holdings, the gearing improves further to 5.05 times as on March 31, 2018 as compared to 5.56 times as on March 31, 2017. Aspire's ability to manage its liquidity position, mobilise funds at competitive rates and maintain a diversified funding mix would be a key rating monitorable.

Diversified funding profile with a healthy mix of bank and capital market borrowings - As on March 31, 2018, Aspire had raised funding from 28 banks and 24 institutions. The company has diversified its borrowing profile and has been able to tap the capital markets. Over the years the share of debt market in the overall borrowing has increased from 27% as on March 31, 2015 to 53% as on March 31, 2018; with the balance from bank lines. Aspire has also been raising short term borrowing through issuance of commercial papers at relatively competitive rates. However, as on March 31, 2018, the company had no commercial paper outstanding.

Credit weaknesses

Sharp deterioration in asset quality indicators in the current fiscal – The company's gross NPA (NPA) and net NPA as a percentage of advances increased to 4.5% and 3.3% as on March 31, 2018 respectively from 0.58% and 0.47% as on March 31, 2017. Adjusting for the write-off and repossessed stock, the company's gross non-performing assets (GNPA) to advances increased to 6.33% as on March 31, 2018 from 4.60% as on December 31, 2017. The deterioration in asset quality was driven by gradual seasoning of portfolio and weakening of liquidity position of borrowers. The delays in setting up of dedicated recovery and collections infrastructure further aggravated the same. The loan book continues to remain relatively unseasoned. This, coupled with the higher risks associated with the segment and the limited ability of the borrowers to absorb income shocks, could result in further deterioration in the asset quality indicators (especially the delinquencies in the softer buckets). ICRA however takes note of the company's effort to focus on collections and its efforts to strengthen the systems and process to contain delinquencies within reasonable levels. Going forward, the company's ability to improve asset quality while ramping up the loan book and as the portfolio seasons would be a key rating sensitivity.

Deterioration in profitability indicators – Profitability indicators deteriorated in FY2018 with return on asset (profit after tax to average total assets) and return on equity (profit after tax to average net-worth) falling to 0.65% and 4.40% levels as compared to 2.35% and 16.72% in FY2017. The company has been able to maintain healthy net interest margins (5.08% in FY2018) on back of decline in Interest expenses/ATA (7.75% in FY2018 compared to 10.03% in FY2017). The company's ability to improve profitability as it scales up, while maintaining lending spreads in the competitive affordable housing segment would be critical.

Geographical concentration of operations - Aspire's operations are focused on Tier II and Tier III cities or extended suburbs of metro locations. The portfolio however remains concentrated in the states of Maharashtra and Gujarat with the two states together accounting for 82% of the overall portfolio as on March 31, 2018. Within Maharashtra, the company has been establishing its presence in cities close to Mumbai and Pune. The company has also been increasing its presence in Madhya Pradesh, Tamil Nadu, Karnataka and Rajasthan among other states. Going forward, incremental profitability from both existing and new branches would be a key monitorable.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Rating Methodology for Housing Finance Companies](#)

About the company

Aspire Home Finance Corporation Limited (Aspire) is a housing finance company (HFC) promoted by the Motilal Oswal group. The flagship company of the group, Motilal Oswal Financial Services Limited is rated at [ICRA]AA (stable). The company commenced the lending operations in May 2014 and had a portfolio of ~Rs. 4,862 crore as on March 31, 2018 as compared to Rs. 4,141 crore as on March 31, 2017. Aspire has a network of 130 branches located primarily in Maharashtra, Gujarat and Madhya Pradesh. The company caters primarily to the lower and middle-income borrower segment for purchase of affordable residential units with a maximum ticket size of Rs. 25 lakh. It has presence largely in Tier II and Tier III locations or extended suburbs of metro locations. The portfolio of Aspire is an even mix of financing to both salaried (~52% of portfolio) and self-employed (~48% of portfolio) customers. The focus on housing finance segment will continue over the near to medium term with no immediate plans of foray into other asset classes like loans against property (LAP), lease rental discounting (LRD) or builder loans. In FY2018, Aspire reported a PAT of Rs. 31 crore

on an asset base of around Rs. 5,083 crore while during FY2017, it reported a PAT of Rs. 82 crore on an asset base of Rs. 4,664 crore. The company had a net-worth of Rs. 799 crore and a gearing of 5.16 times as on March 31, 2018.

Key Financial Indicators

	FY2017	FY2018
Net interest income	103.76	247.63
Profit before tax	125.67	48.57
Profit after tax	82.09	31.49
Portfolio	4,140.79	4,861.89
Total assets	4,663.97	5,082.83
% Tier 1	28.05%	35.61%
% CRAR	31.37%	37.88%
Gearing	6.26	5.16
% Return on assets	2.35%	0.65%
% Return on net worth	16.72%	4.40%
% Gross NPAs	0.58%	4.52%
% Net NPAs	0.47%	3.31%
Net NPA/Net worth	3.06%	20.07%

Source: Company, ICRA research; All amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years							
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2019 June-18	FY2018		FY2017		FY2016		Dec-15	Jul-15
					Mar-18	Jan-18	Dec-16	Jul-16	Mar-16			
1 Bank Lines Programme	Long Term	3,000.00	2,527.00	[ICRA]A+ (stable)	[ICRA]A A- (negative)	[ICRA]A A- (stable)	[ICRA]A A- (stable)	[ICRA]A A- (stable)	-	-	-	
2 Non Convertible Debenture programme	Long Term	1,900.00	1,424.70	[ICRA]A+ (stable);	[ICRA]A A- (negative)	[ICRA]A A- (stable)	[ICRA]A A- (stable)	[ICRA]A A- (stable)	[ICRA]A A- (stable)	[ICRA]A+ (positive)	[ICRA]A+ (positive)	
3 Subordinated Debt Programme	Long Term	100.00	50.00	[ICRA]A+ (stable);	[ICRA]A A- (negative)	[ICRA]A A- (stable)	[ICRA]A A- (stable)	[ICRA]A A- (stable)	[ICRA]A A- (stable)	[ICRA]A+ (positive)	[ICRA]A+ (positive)	
4 Market Linked Debenture Programme	Long Term	300.00	290.20	[ICRA]A+ (stable);	PP-MLD [ICRA]A A- (negative)	PP-MLD [ICRA]A A- (stable)	PP-MLD [ICRA]A A- (stable)	PP-MLD [ICRA]A A- (stable)	-	-	-	
5 Commercial Paper Programme	Short Term	1,000.00	1,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instruments:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE658R07075	Non Convertible Debenture	7-Jul-15	10.84%	6-Jul-18	150.00	[ICRA]A+ (Stable)
INE658R07091	Non Convertible Debenture	17-Aug-15	10.84%	16-Aug-18	100.00	[ICRA]A+ (Stable)
INE658R07117	Non Convertible Debenture	10-Nov-15	9.75%	10-Nov-20	150.00	[ICRA]A+ (Stable)
INE658R07133	Non Convertible Debenture	14-Mar-16	10.70%	8-Apr-19	70.00	[ICRA]A+ (Stable)
INE658R08057	Non Convertible Debenture	28-Apr-16	11.15%	28-Apr-21	50.00	[ICRA]A+ (Stable)
INE658R08065	Non Convertible Debenture	6-May-16	11.00%	6-May-19	25.00	[ICRA]A+ (Stable)
INE658R08073	Non Convertible Debenture	17-May-16	11.00%	17-May-19	100.00	[ICRA]A+ (Stable)
INE658R07141	Non Convertible Debenture	17-May-16	10.70%	5-Jun-19	125.00	[ICRA]A+ (Stable)
INE658R08081	Non Convertible Debenture	14-Jun-16	11.00%	16-Mar-20	50.00	[ICRA]A+ (Stable)
INE658R08099	Non Convertible Debenture	30-Jun-16	11.00%	28-Jun-19	50.00	[ICRA]A+ (Stable)
INE658R08115	Non Convertible Debenture	22-Jul-16	8.95% (variable)	21-Jul-23	250.00	[ICRA]A+ (Stable)
INE658R08107	Non Convertible Debenture	22-Jul-16	10.85%	22-Jul-20	100.00	[ICRA]A+ (Stable)
INE658R07125	Non Convertible Debenture	27-Jul-16	9.85%	15-May-23	99.70	[ICRA]A+ (Stable)
INE658R07158	Non Convertible Debenture	27-Jul-16	0%, Yield 10.25%	27-Jul-18	5.00	[ICRA]A+ (Stable)
INE658R08123	Non Convertible Debenture	9-Aug-16	11.00%	9-Dec-19	50.00	[ICRA]A+ (Stable)
INE658R08131	Non Convertible Debenture	21-Sep-16	10.50%	30-Aug-19	50.00	[ICRA]A+ (Stable)
-	Non Convertible Debenture - Proposed	NA	NA	NA	475.30	[ICRA]A+ (Stable)
INE658R07166	Market Linked Debentures	9-Aug-16	NA	9-Dec-19	80.00	PP-MLD[ICRA]A+ (Stable)
INE658R07174	Market Linked Debentures	23-Aug-16	NA	23-Dec-19	20.00	PP-MLD[ICRA]A+ (Stable)
INE658R07190	Market Linked Debentures	1-Sep-16	NA	1-Jan-20	74.60	PP-MLD[ICRA]A+ (Stable)
INE658R07182	Market Linked Debentures	1-Sep-16	NA	1-Jan-20	8.00	PP-MLD[ICRA]A+ (Stable)
INE658R07208	Market Linked Debentures	6-Sep-16	NA	2-Jan-20	17.40	PP-MLD[ICRA]A+ (Stable)
INE658R07216	Market Linked Debentures	7-Oct-16	NA	6-Feb-20	69.10	PP-MLD[ICRA]A+ (Stable)

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE658R07224	Market Linked Debentures	26-Oct-16	NA	25-Feb-20	6.00	PP-MLD[ICRA]A+ (Stable)
INE658R07232	Market Linked Debentures	28-Oct-16	NA	27-Feb-20	10.00	PP-MLD[ICRA]A+ (Stable)
INE658R07240	Market Linked Debentures	17-Nov-16	NA	18-Mar-20	5.10	PP-MLD[ICRA]A+ (Stable)
-	Market Linked Debentures - Proposed	-	-	-	9.80	PP-MLD[ICRA]A+ (Stable)
INE658R08024	Subordinated Debt	3-Feb-16	11.00%	3-May-21	30.00	[ICRA]A+ (Stable)
INE658R08032	Subordinated Debt	16-Feb-16	11.00%	16-May-21	20.00	[ICRA]A+ (Stable)
-	Subordinated Debt - Proposed	-	-	-	50.00	[ICRA]A+ (Stable)
-	Commercial Paper Programme	-	-	7-365 days	1,000.00	[ICRA]A1+
-	Term Loans	Sep-14	-	Apr-34	2,067.00	[ICRA]A+ (Stable)
-	Working Capital/ Cash Credit Lines	Jan-17	-	-	460.00	[ICRA]A+ (Stable)
-	Bank Lines – Proposed	-	-	-	473.00	[ICRA]A+ (Stable)

Source: Aspire Home Finance Corporation Limited

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