

## India Home Loan Limited

April 01, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	200.00 (Rupees Two hundred crore Only)	<b>CARE BBB-; Stable (Triple B minus; Outlook:Stable)</b>	<b>Reaffirmed</b>

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale& Key Rating Drivers

The rating assigned to the bank facilities of India Home Loans Limited (IHLL) continues to take into account presence of resourceful promoters and institutional investor, adequate capitalization with increase in leverage with growth in loan portfolio and average profitability.

The rating is constrained by nascent stage of operations and unseasoned loan portfolio, moderate asset quality on account of majority customers being in affordable housing segment having higher susceptibility to economic changes, geographical and builder loan portfolio concentration.

Capitalization, growth in business while maintaining profitability and asset quality are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### ***Presence of resourceful promoters and strong institutional investors***

The company is promoted by Mr. Mahesh Pujara who is the Managing Director and Chief Executive Officer (MD & CEO) of the company. The promoters (Mr. Mahesh Pujara and family) held 41.18% shareholding in the company as on December 31, 2018 while 24.50% of the shareholding is held by JM Financial India Fund II (AIF fund sponsored by JM Financial Ltd.) held 24.50%.

Mr. Mahesh Pujara has 35 years of experience in financial services industry including over 9 years in affordable housing finance. He is accompanied by his son Mr. Mitesh Pujara, (Executive Director), has over 25 years of experience in financial sector.

##### ***Adequate capitalisation with increasing gearing levels***

Given the nascent stage of company's operations, IHLL has adequate capitalization with capital adequacy ratio (CAR) of 34.71% (Tier I CAR: 24.10%) as on December 31, 2018 (March 31, 2018: CAR of 29.67% (Tier I CAR: 29.18%)). The company has seen significant growth in loan portfolio over the last two years as a result, capital adequacy levels have seen moderate with overall gearing increasing. The gearing increased to 4.04x times as on March 31, 2018 compared to 0.45x times as on March 31, 2017 on account of increase in borrowings during FY18. The gearing has further increased to 5.92x times as on December 31, 2018 on account of increased bank borrowings to grow loan book. The company has announced fund raising of Rs.12.28 crore through issuance of 16 lac warrants convertible into equity share to group of investors which includes promoters, JM Financial India Fund II and others. The company plans to maintain long term overall gearing in below 5x and now has planned equity infusion of Rs.12.28 crore through issue of warrants which will help the company maintain it.

##### ***Average profitability***

The interest income of the company grew from Rs.5.52 crore in FY17 to Rs.16.39 crore in FY18 on account of more than 4x times growth in Loan portfolio. However, the Net Interest Income (NIM) declined from 9.62% in FY18 to 7.93% in FY17 on account of high disbursement in lower yield product (i.e. individual home loan). The operational Expense to total assets ratio improved from 6.47% in FY17 to 4.20% in FY18. Consequently, the PAT of IHLL increased from Rs.0.99 crore on total income of Rs.5.86 crore in FY17 to Rs. 2.96 crore on total income of Rs.16.70 crore in FY18. However, the ROTA of the company moderated from 2.52% in FY16 to 2.48% in FY17 due to significant increase in the assets towards end of FY18.

The company reported PAT of Rs. 2.26 crore on total income of Rs. 25.18 crore in 9MFY19 as against PAT of Rs. 2.18 crore on total income of Rs. 10.46 crore in 9MFY18. On an annualized basis the ROTA declined to 1.36% in 9MFY19 as against 2.90% in 9MFY18 primarily driven by strong contraction in NIM to 5.33% as against 8.57%.

#### Key Rating Weaknesses

##### ***Nascent stage of operations and unseasoned portfolio***

Although, IHLL has been disbursing loans from January 2010, majority of the disbursements took place in the last 2 to 3 years and hence has limited portfolio seasoning. The company has seen loan portfolio increasing from Rs. 31.59 crore as

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

on March 31, 2016 to 245.08 crore as on December 31, 2018. The company's asset quality performance through different economic cycles and geographies is yet to be established.

**Moderate asset quality**

The Gross NPA has increased from Rs.1.14 crore as on March 31, 2017 to Rs.4.43 crore as on March 31, 2018 partly on account of increase in loan book. The GNPA ratio and NNPA ratio stood at 2.49% and 2.09% as on March 31, 2018 (March 31, 2017: GNPA ratio: 2.70%, NNPA ratio: 1.94%). As on December 31, 2018 the Gross NPA further increased to Rs.6.90 crore and the GNPA ratio and NNPA ratio stood at 2.82% and 2.25% respectively. Net NPA to Net-worth stood at 15.40% as on December 31, 2018 as against 11.11% as on March 31, 2018. The ability of the company to maintain its asset quality while increasing the scale of operations considering the relatively weaker credit profile of the customer segment will be a key monitorable.

**Relatively weaker credit profile of the target segment**

IHLL is primarily catering to the housing finance needs of the self-employed customers in the informal low and middle income segment who are not serviced by the banking sector. The proportion of Self Employed customers accounted for 78% of the IHLL's loan portfolio as on December 31, 2018.

The delinquency levels are expected to be significantly higher in the self-employed low income borrower category vis-à-vis the traditionally low delinquency levels observed in the salaried segment. Hence, HFCs catering to this segment would need to follow stricter underwriting standards and appropriately price the risk.

**Geographical and builder loan portfolio concentration**

The company continues to face geographical concentration in its loan portfolio. As on December 31, 2017, the loan portfolio of the company is spread across three states viz. Maharashtra (15% of the o/s portfolio), Gujarat (84% of the o/s portfolio) and Rajasthan (1% of the o/s portfolio). Going forward, the management expects the portfolio to be concentrated in the above mentioned three states.

As on September 30, 2018, Builder loans as a proportion of the outstanding portfolio was 11.81% as against 12.32% as on March 31, 2018 and 24.12% as on March 31, 2017. Although, the Builder concentration has decreased, average ticket size under builder funding portfolio has increased to Rs.1.55 crore as on December 31, 2019, as against Rs.1.13 crore as on December 31, 2017. Accordingly, any slippage from builder loan portfolio could severely impact asset quality and profitability parameters of the company.

**Analytical approach:** Standalone**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Financial Sector](#)

[Rating Methodology- Housing Finance Companies](#)

**Liquidity profile**

The ALM profile as on December 31, 2018 had mismatches with peak cumulative mismatch of Rs.10 crore over the next 1 year. However, IHLL has received Rs.25.45 crore of PMAY subsidy to its borrowers in March, 2019 which has helped the liquidity profile of the company. Further, the company has received NHB refinance sanction line of Rs.10 crore (Rs.8.5 crore net of 15% BG) which the company will use to build its loan portfolio in Q1FY20. As on March 22, 2019, the company has cash and liquid investments of Rs.21.05 crore.

**About the Company**

IHLL was originally incorporated as 'Manoj Housing Finance Co. Ltd.' in 1990. New management under the leadership of Mr. Mahesh Pujara (having significant experience in the equity capital markets and real estate business over the last 25 years) took over the business of the loss making company in FY09 (refers to the period April 01 to March 31) and renamed the company as 'India Home Loan Limited'. IHLL operates through its head office in Mumbai and a central branch in Ahmedabad and has 10 spoke branches in Maharashtra, Gujarat and Rajasthan. The company is present in the affordable housing loan segment in the states of Gujarat, Maharashtra and Rajasthan with a loan portfolio of Rs.245.08 crore as on December 31, 2018. The company also provides loan against property (LAP) & builder/developer loans. Company's staff strength as on December 31, 2018 was 74.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total income	5.86	16.70
PAT (after share of profit and minority interest)	0.99	2.96
Gearing (times)	0.45	4.04
Total Assets (adjusted for Intangible assets)	46.65	192.24
Gross NPA (%)	2.70	4.43
ROTA (%)	2.52	3.71

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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
Long Term Bank Facilities	-	-	01-11-2029	200.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based-Long Term	-	-	-		-	-	-
2.	Fund-based - LT-Term Loan	LT	200.00	CARE BBB-; Stable	1)CARE BBB-; Stable (15-May-18)	1)CARE BBB-; Stable (21-Mar-18) 2)CARE BBB-; Stable (29-Aug-17) 3)CARE BBB-; Stable (03-Apr-17)	-	1)CARE BB+ (27-Jan-16)

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CIN - L67190MH1993PLC071691