Ashv Finance Limited (erstwhile Jain Sons Finlease Limited)

June 28, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debenture Issue	80 (Rs. Eighty crore only)	CARE BBB; Stable (Triple B; Outlook-Stable)	Revised from CARE BBB-; Positive to CARE BBB; Stable
Proposed Long Term Bank Facilities	20 (Rs. Twenty crore only)	CARE BBB; Stable (Triple B; Outlook-Stable)	Revised from CARE BBB-; Positive to CARE BBB; Stable

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the debt instruments/bank facilties of Ashv Finance Limited (AFL) takes into consideration the change in strategy to de-risk the lending portfolio with focus on lower ticket-size loans (avg. ticket size of Rs.1 crore in FY19 to Rs.13 lakhs in FY21) along with robust underwriting and sector specific lending to mitigate the stress on asset quality due to Covid-19 disruptions. It also factors in the demonstrated support from the company's promoter; Aavishkaar-Intellecap group by way of capital infusion leading to strong capitalization levels and investment by strong foreign institutional investors like Omdiyar Network Mauritius, Triodos Investment Management and Developing World Markets. The revision also factors in the AFL's experienced management team having over 18 years of experience in SME, Credit and Finance as well as improving financial performance of the company as a result of healthy growth in granular portfolio over the last 18 months.

The rating strengths are however partially offset by elevated level of NPAs given the stress on cash-flows of the customers due to lockdown and disruption in the economic activity along with limited track record of majority of book with the revamping of the business model and unseasoned portfolio. The rating is further constrained due to concentrated funding profile with dependence on NBFCs and small scale of operations albeit some improvement given the expansion of business.

Further improvement in profitability and scalability of business along with maintaining good asset quality will be the key rating sensitivities.

Rating sensitivities

Positive factors- Factors that could, individually or collectively, lead to a review for positive rating action/upgrade:

- Sustained scaling up of business over Rs.1000 crore of AUM
- Robust profitability with ROTA above 2 times on a sustained basis.

Negative factors- Factors that could, individually or collectively, lead to a review for negative rating action/downgrade:

- Deterioration in asset quality – Gross NPA more than 5% on a sustained basis.
- Decline in profitability leading to losses on sustained basis.
- Increase in leverage beyond 3 times.

Detailed description of the key rating drivers

Key Rating Strengths

Demonstrated support from promoter group and investment by strong institutional investors

AFL is a part of the Aavishkaar Group which is focused on developing impact ecosystems in Asia and Africa. At March 31, 2021, Aavishkaar Group held 61.5% stake in AFL. In FY20, the promoter group infused aggregate equity of around Rs.100 crore demonstrating continuous support to the company. Promoter group has cumulatively invested Rs.150 crores in FY19 and FY20. There was no equity infusion in FY21 since the company's leverage and capitalization was adequate with a CRAR of 40.89% as on March 31, 2021. The company is also backed by foreign institutional investors like Omdiyar Network (ON), Mauritius, a philanthropic investment firm holds 15.20% stake, Triodos Investment Management, a wholly owned subsidiary of Triodos Bank, holds 11.84% and Developing World Markets (International) Mauritius Limited holds 9.50% stake in AFL as on March 31, 2021.

Experienced management team

The Board of Directors of AFL is headed by Mr. Vineet Rai. Mr. Rai is the founder and Chairman of Aavishkaar Group and has over 18 years of experience in early-stage investing, small business incubation and microfinance. Mr. Nikesh Sinha was appointed as the Managing Director & Chief Executive Officer (MD & CEO) in October, 2018. Prior to joining AFL, he was heading the medium enterprises group in the SME vertical at Axis Bank. The company also appointed Ms. Kiran Agarwal Todi as the Chief Financial Officer (CFO) in January, 2019. Ms. Todi has over 18 years of experience and was CFO of Home First

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

Finance Company India Limited prior to joining AFL. Mr. Ranjan Lahiri, also joined as Chief Risk Officer during June 2019. Mr. Lahiri is a Chartered Accountant with 20 years of experience at HDFC Bank in diversified domains like Operations, Credit Appraisal and Risk, Portfolio Monitoring, Financial & RBI reporting.

Robust capitalization, low gearing & good capital raising ability

AFL has maintained comfortable capitalization level. During FY21, CRAR of the company stood at 40.89% (FY20: 60.79%) and Tier-1 capital stood at 39.64% (FY20: 60.02%). Total debt to Tangible net-worth has increased slightly from 1.09 times in FY20 to 1.57 times in FY21 on the back of increased borrowings to support business expansion. For the current fiscal, AFL plans to raise around Rs.100-150 crore of equity to expand its existing business, however the incremental growth is expected to be largely funded with additional borrowings. Although, with the envisaged capital support, the capital structure is expected to remain comfortable with the overall gearing remaining in the 2-2.5 times range.

Moderate financial performance

During FY21, the company managed to grow the AUM by 32% to Rs.514 crore as a result of expansion in business operation. This contributed to an increase in interest income from Rs.70 crore in FY20 to Rs.95 crore in FY21. As a result, PAT grew by 111% to Rs.7.96 crore in FY21 from Rs.3.77 crore in FY20. Also, the deferred tax benefit of Rs.5.8 crore contributed to the growth in PAT. PAT was impacted on account of increase in operating expense (FY21: 3.18%, FY20: 2.81) as the company expanded its presence from 11 branches in FY20 to 23 branches in FY21. 22 more branches are expected to be set-up by AFL for further business growth. Credit cost/ATA declined marginally from 2.81% in FY20 to 2.77% in FY21 however in absolute terms it increased from Rs.13 crore in FY20 to Rs.16 crore in FY21 given the increase in stress in the asset quality of the company on account of Covid-19. The company had written off Rs. 9.3 crore during FY21 mainly related to its legacy stress accounts. ROTA improved and stood at 1.41% in FY21 as against 0.83% in FY20. RONW stood at 3.48% in FY21 (FY20:3.28%). NIM (NII/average total assets) of the company improved from 8.14% in FY20 to 10.67% in FY21 on account of improvement in yields as well as decline in the cost of funds.

Given the company's plans to further expand its presence, the opex is expected to remain high in the current fiscal which may impact the profitability going forward. However, the increase in credit cost will depend on the incremental stress in the legacy book as well as any fresh delinquencies from its largely unseasoned book disbursed in the last 18 months. As such the movement in NPAs and its impact on credit cost shall be a key monitorable.

Healthy business growth

In FY21, the company managed to grow their AUM by 30% despite the stress in economy on account of Covid-19 pandemic. As on March 31, 2021, the AUM stood at Rs.514 crore as against Rs.391 crore as on March 31, 2020. The growth was largely driven by good amount of disbursements done in FY21 (Rs.443 crore) including a book buy-out of Rs.47 crore from its associate company; Arohan Financial Services Ltd (rated CARE A-; Negative). The change in strategy to reduce the average ticket size from Rs.1 crore in FY19 to Rs.13 lakhs in FY21 has also helped AFL to drive the business growth. The company's product offerings includes business loans (67%), SME loans (legacy book) (10%), Partnership/fintech loans (11%), on-lending loans (11%) and supply chain financing (SCF) (2%). The company will now focus only on the small ticket size business loan and partnership/fintech loan. On-lending book will be capped at 10% of the total portfolio and will largely be extended to the existing customers. Legacy SME term loans and SCF loans are expected to be run down during the course of their maturity.

Key Rating Weaknesses

Moderate Asset Quality:

As on March 31, 2021, the Gross NPA ratio of the company stood at 3.15% as against 2.36% in FY20. The asset quality moderated in FY21 mainly in the legacy book of the company which was on-boarded before March 2020. Out of the Gross NPA of 3.15%, around 2.5% is towards the legacy book which was largely impacted due to COVID related uncertainties. The performance of the book on-boarded post March 2020 has Gross NPA of 0.07% out of total post covid book of Rs.273 crore as a result of fine tuning of credit evaluation process. After the pandemic, the company has stopped its lending towards non-essential sectors and is focusing towards lending only in the essential segments like pharma, kirana store, essentials etc. in order to maintain robust asset quality. The incremental NPAs mainly pertain to sectors affected by Covid such as tourism, professional, traders, hotels & restaurant owners, transport operators, etc. The company has also restructured loans aggregating to about Rs. 38 crores during FY21. Going forward the performance of the legacy book (25% of AUM), incremental delinquencies from new book and the restructured book shall remain the key monitorables.

Moderate funding profile

AFL has been raising equity capital largely from the promoter group and has maintained low leverage over the years. As on March 31, 2021, the company had total borrowings of around Rs.342 crore. Majority of the debt funding for AFL was from NBFCs and banks. The company has raised around 29% via NCD and remaining 70% via term loan from banks and NBFCs. Within banks and NBFCs, the lending is moderately diversified across 12 lenders with higher dependency on NBFCs. During

FY21, the company raised around Rs.236 crore and also on-boarded 5 new lenders. AFL raised approx Rs.11 crore in FY21 through securitization and further plans to increase its borrowings through this route.

Modest size of operations albeit some improvement

After the induction of new Senior management in FY19, there has been a change in the strategy of the company from venture debt financing to primarily unsecured MSME lending. The company is also scaling up its branches and sales network. The company has expanded its reach from 3 branch in FY19 to 23 branches in FY21. It has also tightened its credit underwriting as well as strengthen its sales and collection verticals. The company not only increased its collection staff to 15 but also decentralized the collection effort. Total staff strength saw an increase from 144 in FY20 to 337 in FY21. As on March 31, 2021, the company's AUM stood at Rs.514 crore as against Rs.391 crore in FY20; 30% growth in FY21. Majority of the disbursements have happened in the last two years.

High proportion of unsecured book with unseasoned loan portfolio

AFL is currently engaged in providing unsecured MSME loans through various products like cluster loans, banking surrogate loans, business installment loans, GST loans, micro loans, dukandar loans and mansha loans. The borrower profile largely includes shop owners, professionals, traders, pharmacists etc. where the cash flows are largely dependent on the level of economic activities. Robust underwriting is largely critical in maintaining a robust asset quality in this segment. While the company has evolved its underwriting standards to meet the specific requirement of its client, we believe a sudden disruption like a lockdown or restriction in economic activities will have a considerable impact on the cash flows of the borrowers. Out of the total portfolio of Rs.514 crore, almost 73% of the book is unsecured in nature which remains key in controlling the asset quality metrices.

As on March 31, 2021, the AUM of the company stands at Rs.514 crore. The company has disbursed Rs.458 crore during FY20 and Rs.443 during FY21. Majority of the disbursements have happened in last two years which indicates largely unseasoned portfolio since most of the products has tenure of almost 3 years.

Analytical approach: Standalone

Liquidity position - Adequate

The ALM of the company as on March 31, 2021 (Prov) showed no negative cumulative mismatches in any of the buckets. As on May 31, 2021, cash and bank balance stood at Rs.55.70 crore with unutilized credit lines of Rs.90 crore as against total debt obligations of Rs.147 crore for next 1 year. The company's collections are also comfortable with collection efficiency being at +90% in the month of May 2021. The company is approaching various lenders for funds raising and in Q1FY22 the company has raised around Rs.55 crore till date.

Applicable Criteria

Rating Methodology- Non-Banking Finance Companies
Criteria for assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios- Financial Sector

About the Company

Ashv Finance Ltd (AFL) (erstwhile Jain Sons Finlease Ltd) is an NBFC incorporated in February 1998. On October 08, 2020, the company had received the approval from Registrar of Companies for change in the name of the company from "Jain Sons Finlease Ltd" to "Ashv Finance Ltd". Ashv is a tech-led NBFC empowering the small and emerging businesses of India. It is engaged in funding the MSME sector through various products both secured and unsecured financing within focus sectors of financial services, clean energy, water & sanitation, agriculture & rural business, healthcare, education & vocational training. It aims to serve the underbanked businesses in India.

The company is promoted by the Aavishkaar group since 2011 which is focused on developing the impact ecosystem in the continents of Asia and Africa. The group is led by Mr. Vineet Rai who is the founder and CEO of the group. Ashv Finance started its lending operations in 2013 with venture-debt financing. In mid FY19, the revamping of the business model was done from venture debt financing to small ticket size business loan

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total income	74.97	97.85
PAT	3.77	7.96
Interest coverage (times)	1.06	1.08
Total Assets	517.63	610.40
Net NPA (%)	0.71	1.52
ROTA (%)	0.83	1.41

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

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
Non-Convertible Debentures	INE411R08028	17-Nov-16	12.86%	17-Nov-21	20.00	CARE BBB; Stable
Non-Convertible Debentures	INE411R07061	01-Mar-21	13.75%	01-Jun-22	16.00	CARE BBB; Stable
Non-Convertible Debentures- Proposed	-	-	-	-	44.00	CARE BBB; Stable
Proposed Long Term – Bank Facilities		-	-	-	20.00	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	-	-	-	1)Withdrawn (01-Apr-19)	1)CARE BBB-; Negative (06-Apr-18)	1)CARE BBB-; Positive (10-May-17)
2.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB; Stable	1) CARE BBB-; Positive (29-Jun-20)	1)CARE BBB-; Stable (01-Apr-19) 2)CARE BBB-; Positive (09-Oct-19)	1)CARE BBB-; Negative (06-Apr-18)	1)CARE BBB-; Positive (10-May-17)
3.	Debentures-Non Convertible Debentures	LT	30.00	CARE BBB; Stable	1) CARE BBB-; Positive (29-Jun-20)	1)CARE BBB-; Stable (01-Apr-19) 2)CARE BBB-; Positive (09-Oct-19)	1)CARE BBB-; Negative (06-Apr-18)	1)CARE BBB-; Positive (10-May-17)
4	Proposed Long Term – Bank Facilities	LT	20.00	CARE BBB; Stable	1) CARE BBB-; Positive (29-Jun-20)	-	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr.no	Name of instrument	Complexity level
1.	Non-Convertible Debentures	Simple
2.	Bank Facilities	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

Analyst Contact -1
Name - Mr. Abhijit Urankar
Contact no.- +91-22-6754 3669
Email ID – abhijit.urankar@careratings.com

Analyst Contact-2
Name - Mr. Gaurav Dixit
Contact no.- +91-11-4533 3237
Email ID – gaurav.dixit@careratings.com

Business Development Contact
Name: Mr. Ankur Sachdeva
Contact no.: +91-22-6754 3495
Email ID - ankur.sachdeva@careratings.com

Media Contact
Name - Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**