Ashv Finance Limited

July 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	200.00	CARE BBB; Stable	Reaffirmed
Non-convertible debentures	30.00	CARE BBB; Stable	Reaffirmed
Non-convertible debentures	50.00	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the debt instruments/bank facilities 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 (average ticket size of ₹1 crore in FY19 to ₹10 lakh in FY23). It also factors in the demonstrated support from the company's promoter, Aavishkaar Intellecap group, by way of capital infusion leading to strong capitalisation levels and investment by strong foreign institutional investors like Omdiyar Network Mauritius, Triodos Investment Management and Developing World Markets. It also factors in healthy growth in granular portfolio over the last 3 years.

The rating strengths are, however, partially offset by the presence in unsecure lending segment, moderate profitability parameters, moderate asset quality given the stress on the legacy book and limited track record of the company.

AFL's profitability and scalability of business along with maintaining good asset quality will be the key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations on a sustained basis while capitalisation remaining comfortable.
- Robust profitability with return on total assets (ROTA) above 1% on a sustained basis.
- Significant diversification in the resource profile.
- Improvement in asset quality parameters.

Negative factors

- Deterioration in asset quality – gross non-performing assets (GNPA) more than 5% on a sustained basis.
- Deterioration in profitability – ROTA falls below 0.5%.

Analytical approach: Standalone

CARE Ratings Limited (CARE Ratings) has analysed standalone credit profile of AFL.

Outlook: Stable

The stable outlook reflects expectation of continued operational and financial position with no further deterioration in profitability along with comfortable capitalisation levels.

Detailed description of the key rating drivers:

Key strengths

Demonstrated support from promoter group and investment by strong institutional investors

AFL is a part of the Aavishkar Group which is focused on developing impact ecosystems in Asia and Africa. On March 31, 2023, the Aavishkar Group held 61.97 (on fully diluted basis) stake in AFL. In FY20, the promoter group infused aggregate equity of around ₹100 crore demonstrating continuous support to the company. The promoter group has cumulatively invested ₹150 crore in FY19 and FY20. Furthermore, the company is expecting around ₹150 crore – ₹160 crore (around ₹80 crore expected by end

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

of September 2023) of capital infusion and this will aid to keep the gearing below 3x in FY24. The company is also backed by foreign institutional investors like Omdiyar Network (ON), Mauritius, a philanthropic investment firm holds 12.58% (on fully diluted basis) stake, Triodos Investment Management, a wholly-owned subsidiary of Triodos Bank, holds 9.80% (on fully diluted basis), and Developing World Markets (International) Mauritius Limited holds 7.87% (on fully diluted basis) stake in AFL as on March 31, 2023.

Experienced management team

The Board of Directors of AFL is headed by Vineet Rai. He is the founder and Chairman of the Aavishkar Group and has over 18 years of experience in early stage investing, small business incubation and microfinance. 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 Kiran Agarwal Todi as the Chief Financial Officer (CFO) in January 2019. She has over 18 years of experience and was CFO of Home First Finance Company India Limited prior to joining AFL. Ranjan Lahiri also joined as the Chief Risk Officer during June 2019. He is a Chartered Accountant with 20 years of experience at HDFC Bank in diversified domains like Operations, Credit Appraisal and Risk, Portfolio Monitoring, Financial and RBI reporting.

Comfortable capitalisation and good capital raising ability

AFL has maintained a comfortable capitalization level. During FY23, the CRAR of the company stood at 20.75% (FY22: 28.58%) and Tier-1 capital stood at 19.91% (FY22: 27.71%). Gearing has increased from 2.71x in FY22 to 3.93x in FY23. For the current fiscal, AFL plans to raise around ₹150-160 crore of equity through ESF Holding II, which is managed by Encourage Capital Management and institutional investors in order to expand its existing business and maintain the gearing levels below 3x. CARE Ratings expects the company should to maintain capital adequacy going forward to support growth and to cover credit cost.

Continued business loans growth; predominantly in essential services segment

In FY23, the company managed to grow their assets under management (AUM) by 47% to ₹1,070.30 crore from ₹727.89 crore in FY22 on account of disbursements of ₹858 crore. The change in strategy to reduce the average ticket size from ₹1 crore (4 years tenure) to less than 10 lakhs (2 years tenure) has also helped AFL to drive the business growth. The product mix comprises unsecured loans (small ticket size), 96% of loan book, and SME loans (legacy book) (1.85%), Partnership/fintech loans (1.53%) and on-lending loans (0.86%). The vintage of the new book is only of 4 years, as they have started with business loans in 2020.

Key weaknesses

Moderate financial performance

During FY23, AFL continued to focus on small ticket size business loans which resulted in improvement of the AUM of AFL to ₹1,070.30 crore. There is a 47% increase in AUM, leading to an increase in the interest income from ₹120 crore in FY22 to ₹174.5 crore in FY23.

Despite a considerable rise in the interest income, profit after tax (PAT) could only climb from ₹5.47 crore in FY22 to ₹6.07 crore in FY23. The PAT is low due to 42% increase in the wage expenses and branch expenses. As a result, net interest margin (NIM) fell marginally from 8.13 in FY22 to 7.30 in FY23. NIM was also low due to significant increase in the assignment income. Furthermore, the company had written off ₹31.96 crore during FY23 mainly related to its legacy stress accounts, which impacted profitability. Thus, ROTA stood at 0.59% in FY23 as against 0.72% in FY22. The return in net worth (RONW) stood at 2.92% in FY23 as against 2.44 in FY22. On a steady-state basis, the company expects opex in the range of 6%-6.5%.

Moderate funding profile

AFL has been raising equity capital largely from the promoter group and external investors. As on FY23, AFL had funding lines from the banks and non-banking finance companies (NBFCs), wherein they have on-boarded 15 new lenders (which included 9 banks and 6 financial institutions) in FY23. The total borrowings as on FY23 is ₹756 crore as against ₹622 crore in FY22. There was an increase in the cost of borrowing across industry. Hence, the cost of fund for FY23 was increased to 14.46% as against 12.12% in FY22, in line with peers. Furthermore, AFL has raised approximately ₹195.47 crore in FY23 through securitisation and further plans to increase its borrowings through this route. The incremental cost of borrowings for Q4 of FY23 was 12.45%. Going forward, CARE Ratings notes that it is important for the company to diversify its borrowing profile, currently large of part borrowing comes from NBFCs and AIFs.

Moderate asset quality

As on March 31, 2023, the GNPA ratio of the company stood at 3.48% as against 4.01% in FY22. Out of the total GNPA of 3.48%, majority contribution is from legacy book (higher ticket size business loans). Provision coverage for GNPAs is maintained at 61.15% in FY23. Furthermore, the company had written off ₹31.96 crore (4.03% of loan portfolio) in FY23. Consequently, the stressed assets (GNPAs + restructured book) are at ₹42.6 crore (5.36% of the loan book). The incremental slippages mainly pertain to legacy books, whereas slippages from new book are on lower side. The company has reported credit cost of 4.1% for FY23 including write-offs. Going forward, the company expects credit cost to remain in the range of 3.5%-4%.

Modest size of operations albeit some improvement

As on March 31, 2023, the company reported modest AUM of ₹1,070 crore. However, the company has grown its AUM at a healthy growth rate of 44.33% in the last couple of years. After the induction of new senior management in FY19, there has been a change in the strategy of the company from venture debt financing at higher ticket size to primarily unsecured MSME lending in low ticket size. The company is also scaling up its branches and sales network. The company has expanded its reach from three branches in FY19 to 36 branches and 182 spoke locations in FY23. Expansion in branches, staff strength and sales network is expected to support the growth going forward. AFL has presence in 20 states but currently is concentrated in the top three states (Maharashtra, Gujrat and Telangana) contributing 50% of the AUM. Moreover, AFL has also tightened its credit underwriting as well as strengthened its collection verticals. The total staff strength increased from 391 in FY22 to 483 in FY23.

Liquidity: Adequate

The asset liability maturity (ALM) of the company as on March 31, 2023, showed no negative cumulative mismatches in any of the buckets up to 5 years. As on March 31, 2023, cash and bank balance along with liquid investments of ₹111.46 crore as against debt obligation of ₹110.37 crore for the next 3 months. The company's collections are also comfortable with collection efficiency being at 94%. In addition to this, the company is expecting capital infusion of ₹150 crore to ₹160 crore as well.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

Ashv Finance Ltd (AFL) 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 phygital-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, and education & vocational training. 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 Vineet Rai, who is the founder and Chairman of the group. AFL 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 (₹ crore)	FY21 (A)	FY22 (A)	FY23 (A)
Total income	97.85	128.52	220.85
PAT	7.96	5.47	6.07
Interest coverage (times)	1.08	1.04	1.02
Total Assets	610.40	905.73	1,145.09
Net NPA (%)	1.52	1.55	1.35
ROTA (%)	1.41	0.72	0.59

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE411R07095	13-Aug-21	13.65%	13-Sep-2023	4.80	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE411R07178	30-Aug-22	13.15%	30-Sep-2024	14.40	CARE BBB; Stable
Debentures-Non-Convertible Debentures	INE411R07160	05-Jul-22	13.00%	05-Jul-2023	10.00	CARE BBB; Stable
Debentures-Non-	INE411R07145	27-May-22	12.25%	27-Nov-2028	15.00	CARE BBB; Stable

Convertible Debentures						
Debentures-Non-Convertible Debentures (Proposed)	-	-	-	-	35.80	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	-	Aug-2025	200.00	CARE BBB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non Convertible Debentures	LT	30.00	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Jan-23) 2)CARE BBB; Stable (24-Jun-22)	1)CARE BBB; Stable (28-Jun-21)	1)CARE BBB-; Positive (29-Jun-20)
2	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Jan-23) 2)CARE BBB; Stable (24-Jun-22)	1)CARE BBB; Stable (28-Jun-21)	1)CARE BBB-; Positive (29-Jun-20)
3	Fund-based - LT-Term Loan	LT	200.00	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Jan-23) 2)CARE BBB; Stable (24-Jun-22)	1)CARE BBB; Stable (28-Jun-21)	1)CARE BBB-; Positive (29-Jun-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
Fincare Small Finance Bank	Company must maintain the following at all times during currency of loan. GNPA<=6% CRAR>=20% Leverage (Debt/Equity) <=4
IDFC First Bank	Asset Quality: NNPA to be maintained <3% CRAR to be maintained >20%
Kotak Mahindra Bank Ltd	TOL/TNW should not be >4.50 times during the currency of KMBL loan (TL-1). If it exceeds 4.50 times, then borrower to bring in cash margin of 5% of term loan limits. Gross Stage 3 assets should not exceed 5% of the total loan book during the currency of KMBL loan (TL-1).
Suryoday Small Finance Bank	Total Debt/Equity<=3.5X CRAR>=20% GNPA<=5%

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates rais e capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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