India Ratings Revises Outlook on Ashv Finance’s Debt to Negative; Affirms ‘IND BBB’; Downgrades CP to ‘IND A2’

Jan 19, 2024 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has taken the following rating actions on Ashv Finance Limited’s (AFL) debt instruments:

Instrument Type	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Principal protected market-linked debentures (PP-MLDs)	INE411R07087	29 June 2021	14.58%	30 September 2024	INR200	IND PP-MLD BBB/Negative	Affirmed; Outlook revised to Negative from Positive
Bank loans	-	-	-	-	INR500	IND BBB/Negative	Affirmed; Outlook revised to Negative from Positive
Non-convertible debentures (NCDs)*	-	-	-	-	INR700	IND BBB/Negative	Affirmed; Outlook revised to Negative from Positive
Commercial paper (CP)^	-	-	-	27 May 2024	INR500	IND A2	Downgraded

*Details in Annexure
^ unutilised amount INR264.3 million

Analytical Approach: Ind-Ra continues to take a standalone view of AFL to arrive at the ratings.

AFL’s Positive Outlook in the prior year reflected AFL’s increasing franchisee in the small ticket unsecured business loan segment with increasing diversification in the funding profile. It also reflected the agency's expectation that AFL might grow profitably with adequate liquidity buffer and contained asset quality. However, AFL's operating performance and asset quality sharply deteriorated in 1HFY24, leading to Ind-Ra revising the Outlook to Negative and downgrading the CP rating. The company incurred a loss of INR261 million and its gross non-performing assets (GNPA) increased to 9.05% at end-September 2023. Also, the collection efficiency declined to 88% in 3QFY24 which has led to pressure on credit cost. There has also been an attrition at the senior level management which can impact the company's performance. The leverage (on tangible equity) had also increase to 4.44x as of 1HFY24; However, the latest equity infusion has helped the company bring down its leverage level to below 4x.

Key Rating Drivers

Profitability Remains Under Pressure: AFL's profitability during 1HFY24 was impacted by lower growth in assets under management (AUM) and higher credit costs, leading to losses of INR261 million (FY23: profit of INR60.7million; FY22: profit of INR54.7 million). Furthermore, AFL's profitability continues to be constrained by high operational (operating cost/average AUM; 1HFY24: 6.9%; FY23: 8.1%; FY22: 8.8%) and credit costs (9.06%; 6.18%, 2.2%). The AUM declined to INR9,774 million in 1HFY24 from INR10,700 million in FY23 due to delays in equity infusion which led to a 58.5% yoy decline in disbursements in 9MFY24. The agency expects AUM to grow to INR12 billion-15 billion and operating cost to moderate over the medium term. The operating leverage will play out as the company starts leveraging its infrastructure of the hub & spoke model. Furthermore, with AFL's legacy/partnership book reducing to around 2.2% of AUM in 1HFY24 (FY23: 3.4%) and likely completely running down in the near term, incremental credit costs over the medium term remain a monitorable and will be key for improving its profitability.

Elevated Credit Cost Compressing Profitability: At 1HFYE24, AFL's GNPA increased to 9.05% (FY23: 3.5%; FY22: 4.1%;). However, the headline GNPA was partially exaggerated by the shrinking AUM base. While the credit cost increased in 1HFY24, Pre-provision operating profit to credit cost (PPOP/CC) buffer shrunk to 0.17x (FY23: 1.03x; FY22: 1.13x). Moreover, the provision coverage ratio reduced significantly to 68% as of 1HFY24 (FY23: 87%). However, Ind-Ra opines that given the unsecured nature of the book, the provision coverage has to be strengthened. AFL had written off INR214.6 million in 1HFY24 (FY23: INR400.7 million; FY22: INR122.7 million) as the stress from the new book, legacy book and restructured pool continued to play out during the period. With the legacy book/partnership book, the restructured pool also declined to INR81.2 million in 1HFY24 (1.0% of the portfolio; 63% of the portfolio from the legacy pool) from INR131 million in FY23 (1% of the portfolio). Moreover, the collection efficiency fell to 90.5% on average in 9MFY24 from an average of 93.9% in 9MFY23. AFL has recalibrated its collection strategy, with the sales team now having the dual responsibility of sales and collections. Considering the borrower profile in business loans, Ind-Ra opines focus and thrust on collections and initial assessment of the borrower's credit profile remain paramount for controlling credit risk in the medium-to-long term. The agency expects 4.5%-5.0% of annual credit costs from its unsecured business loan portfolio over the medium term.

Adequate Capital Buffer Post Capital Infusion: AFL raised INR913 million in the latest equity infusion. The infusion is part of an INR1,400 million capital raise program, where management expects the remaining INR487 million to come in by end-FY24. At 1HFYE24, AFL's Tier-1 capital stood at 19.8% (FY23: 19.9%; FY22: 27.7%), tangible net worth was INR1,717.4 million (INR1,966 million; INR2,229 million) and leverage (debt/tangible net worth) was 4.4x (3.7x; 2.7x); however, the leverage has come down to 3x post the infusion. While the buffer is adequate to support growth over the medium term, the infusion of the remaining capital by end-FY24 is crucial to accelerate the growth back to its historical trend. The capital cushion can also be utilised to absorb asset-side shocks. The management plans to operate below a threshold leverage of 4.0x on a steady-state basis. AFL also utilised direct assignments in 1HFY24 to manage its capitalisation and profitability; Ind-Ra expects it to continue to utilise the same over the medium term and will also continue to source business by way of off-book financing through business correspondents and co-lending partnerships.

Diversified Funding Profile Supports Cost of Funds: At 1HFYE24, AFL had funding lines from 41 lenders. The funding mix has marginally improved with the share of cheaper term loans from banks increasing to 23.0%

as of 1HFY24 (FY23: 22.3%; FY22: 13%) and share of loans from non-bank financial companies declining to 31.3% (36%; 36%) and NCDs at 37% of the total borrowing mix (31%, 29%). With the increasing share of funding from banks, AFL was able to reduce its marginal cost of borrowings (excluding process, legal and other charges) to 12.3%-12.9% at 1HFYE24 (FYE23: 12.6%; FYE22: 12.9%). AFL raised around INR2,622 million in 1HFY24.

Liquidity Indicator - Adequate: As per the latest asset-liability statement, AFL had a cumulative surplus as a percentage of total assets of 10% in the less than one-year bucket at end-October 2023. The management expects the surplus in the up to one-year bucket to be maintained on an ongoing basis and AFL's plans to maintain its on-balance sheet liquidity to meet repayments for the next two months even as the business scale continues to expand. At end-November 2023, AFL had debt obligations of INR 927.4 million for the subsequent two months, as against the unencumbered cash and liquid investments of INR1,287.0 million, which along with advances inflow provide adequate liquidity cover.

Rating Sensitivities

Positive: A demonstrated ability to profitably expand the franchise along with an improvement in the asset quality, while continuing to improve diversification of the funding profile, and maintaining adequate liquidity and capital buffers could lead to a positive rating action.

Negative: A further weakening of the operating performance, funding challenges and dilution in the liquidity buffers below two months on an ongoing basis, and sustained asset quality deterioration, will result in a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on AFL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

AFL is a non-bank financial company registered with the Reserve Bank of India. It started operations in 2012 as a venture debt financer and provides small ticket size loans to the micro, small and medium-sized enterprises.

FINANCIAL SUMMARY

Particulars	1HFY24	FY23	FY22
Total assets (INR million)	11,186	11,450	9,057
Total tangible equity (INR million)	1,717	1,966	2,229
Net income (INR million)	-261	60.7	54.7
Return on average assets (%)	-4.61	0.59	0.72
Tier-I capital adequacy ratio (%)	19.8	19.9	27.7
Equity/assets (%)	15.4	17.2	24.6
Source: AFL, Ind-Ra			

Non-Cooperation with previous rating agency

Not applicable

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APPLICABLE CRITERIA

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating	29 May 2023	24 June 2022	25 June 2021	18 June 2021
Bank loans	Long-term	INR500	IND BBB/Negative	IND BBB/Positive	IND BBB/Positive	IND BBB/Stable	IND BBB/Stable
PP-MLDs	Long-term	INR200	IND PP-MLD BBB/Negative	IND PP-MLD BBB/Positive	IND PP-MLD BBB/Positive	IND PP-MLD BBBemr/Stable	IND PP-MLD BBB emr/Stable
CP	Short-term	INR500	IND A2	IND A2+	-	-	-
NCDs	Long-term	INR700	IND BBB/Negative	IND BBB/Positive	-	-	-

Annexure

NCDs

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
INE411R07202	24 May 2023	12.25	7 May 2026	INR200	IND BBB/Negative
INE411R07210	12 July 2023	12.25	31 December 2024	INR150	IND BBB/Negative
INE411R07228	12 July 2023	12.25	30 June 2026	INR150	IND BBB/Negative
			Total utilised	**INR500**	
			Total unutilised	**INR200**	

			Total	INR700	

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Level
Bank loans	Low
PP-MLD	High
CP	Low
NCDs	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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