June 19, 2024

Ummeed Housing Finance Private Limited: [ICRA]A1 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	55	[ICRA]A1; assigned
Total	**55**	

**Instrument details are provided in Annexure I*

Rationale

Ummeed Housing Finance Private Limited's (UHFPL) rating factors in its comfortable capitalisation and strong liquidity profile as well as its healthy profitability indicators with a return on managed assets (RoMA) of 3.5%[1] in FY2024. This was supported by good net interest margins (NIMs) and low credit costs. The capital position was strengthened by the recent capital raise of Rs. 580 crore (including Rs. 300 crore as primary capital) from new and existing investors. Following this, the net worth increased to ~Rs. 848 crore as on April 30, 2024.

ICRA notes that the company has scaled up its business, with assets under management (AUM) at Rs. 1,749 crore as on March 31, 2024, registering a compound annual growth rate (CAGR) of 42% over the five-year period of FY2019-FY2024. UHFPL has maintained good asset quality indicators with the reported gross non-performing assets (GNPAs) at 0.5% as on March 31, 2024, albeit on a less seasoned book.

In terms of the borrowing mix, UHFPL has adequately diversified its borrowing mix for the current scale of operations. However, it will need to continuously expand its funding relationships and secure funds at competitive rates to achieve its targeted growth. The low leverage and recent capital raise, along with the sufficient sanctioned but unutilised bank lines, support the company's liquidity profile.

The rating is constrained by the company's moderate scale and limited track record of operations in relation to the tenure of its assets, as significant growth was achieved over the last three years. The state-level concentration is high, with the top 2 states accounting for 73% of the total AUM as on March 31, 2024. In this regard, the granular nature of the loan book (average ticket size of Rs. 9.5 lakh) mitigates the risk to some extent. While the asset quality indicators are well under control thus far, the portfolio is vulnerable due to the target borrower profile (consisting of low-to-middle income borrowers and largely self-employed/cash salaried/informal income), given the limited income buffers to withstand economic shocks. Overall, UHFPL's ability to increase the scale of operations while maintaining its profitability and asset quality would be a key rating driver.

UHFPL is an affordable housing finance company that provides home loans (HLs) for the purchase, construction, extension or renovation of houses, as well as non-home loans (NHLs) such as loan against property (LAP; for consumption and personal use), business loans (BLs; for working capital and other business requirements) and small-ticket business loans (STBLs; for short-term loan requirements of shopkeepers).

[1] *All the data as on March 31, 2024/FY2024 is based on provisional financials*

Key rating drivers and their description

Credit strengths

Comfortable capitalisation for the current scale of operations – UHFPL's capitalisation profile remains comfortable for its current scale of operations, supported by regular capital infusions. The company recently completed an equity infusion round of Rs. 580 crore, which included primary and secondary transactions with participation from new and existing investors. As a part of this transaction, Rs. 300 crore was infused as primary capital via the compulsory convertible preference shares (CCPS) route, with the first tranche of Rs. 100 crore received in March 2024. This first tranche, along with internal accruals, increased the company's net worth to Rs. 648 crore (managed gearing of 1.8x) as on March 31, 2024 from Rs. 488 crore (managed gearing of 1.5x) as on March 31, 2023. The second tranche of Rs. 200 crore was received in April 2024, further increasing the net worth to ~Rs. 848 crore as on April 30, 2024.

The company has raised capital every 12-18 months to support business growth while maintaining the managed gearing below 2x. Since inception, it has raised a total capital of Rs. 711.5 crore. ICRA notes that UHFPL has outlined a road map for robust AUM growth, which is likely to increase the leverage from the current levels. In this regard, growth capital from investors is expected in the medium term to keep the managed gearing below 4x during this period.

Healthy profitability indicators – UHFPL's earnings profile is characterised by good interest margins (supported by high portfolio yields) and elevated operating expense ratios due to the ongoing expansion phase and low credit costs. The average yield on advances moderated to 15.5% in FY2024 from 16.3% in FY2023 due to the reduction in processing fees for HLs, which drove incremental disbursements in FY2024. Simultaneously, the weighted average cost of funds reduced marginally to 9.4% in FY2024 from 9.7% in FY2023 because of lower-cost funds from National Housing Bank (NHB) and United States International Development Finance Corporation (US International DFC) raised in the first half of the year. However, the lending spreads and NIM declined slightly to 6.1% and 10.0%, respectively, in FY2024 from 6.6% and 10.5%, respectively, in FY2023.

While operating expenses, in relation to average managed assets, moderated to 6.4% in FY2024 from 7.0% in FY2023, it remains elevated due to rapid branch expansion over the past two years. At the same time, credit costs remained low at 0.3% in FY2024 (despite increasing from 0.0% in FY2023), given the limited portfolio seasoning and low fresh slippages. Although the NIMs declined and the credit costs increased marginally, the moderation in operating expenses and rise in other income because of higher commissions led to a slight improvement in the profitability. RoMA and return on net worth (RoNW) improved marginally to 3.5% and 9.5%, respectively, in FY2024 from 3.3% and 7.4%, respectively, in FY2023. Overall, UHFPL's ability to improve its operating efficiency while maintaining control over fresh slippages will be critical for enhancing its profitability profile, going forward.

Credit challenges

Moderate portfolio vulnerability arising out of target borrower profile; however, asset quality has remained under control thus far – UHFPL's ability to grow while maintaining control over the asset quality indicators will remain monitorable, given the vulnerable nature of its portfolio as it caters to underbanked low-to-middle income group customers from tier II and tier III/IV cities, who have informal income and limited or no credit history. The company's appraisal process includes repeated discussions with the borrower, neighbourhood checks, cash flow analysis and visits to the home and workplace to establish income, expenses and debt repayment capacity. In ICRA's opinion, a prudent capitalisation level, the secured nature of the portfolio backed largely by self-occupied residential properties and low loan-to-value (LTV) ratios are key mitigants against the inherent risks associated with the company's portfolio.

UHFPL has maintained healthy asset quality indicators since inception, with only a marginal deterioration in FY2021 and FY2022 due to the Covid-19 pandemic. Given the rapid expansion of the loan book over the past two years and limited portfolio seasoning, the asset quality indicators remain under control despite the adoption of Income Recognition and Asset Classification (IRAC) norms. The gross and net NPAs stood at 0.49% and 0.15%, respectively, as on March 31, 2024 (0.41% and

0.27%, respectively, as on March 31, 2023). Write-offs remain low for the company, with cumulative write-offs amounting to Rs. 5.3 crore since inception.

Limited track record of operations in relation to asset tenure and high geographical concentration – UHFPL started operations in 2016 with three hubs in three states. Its presence has expanded rapidly, with the addition of 59 branches over the last two years. As on March 31, 2024, UHFPL had 103 branches across seven states, serving 25,270 borrowers, compared to its presence in four states with 17 branches and 3,736 borrowers as on March 31, 2019. UHFPL's AUM increased at a CAGR of 42% over the last five years to Rs. 1,749 crore as on March 31, 2024 from Rs. 302 crore as on March 31, 2019. However, a significant share of this growth occurred in the last three fiscals, resulting in the low seasoning of the loan book.

In terms of geographical presence, UHFPL started operations in Rajasthan and Haryana and has expanded its reach to eight states in North and West India over the years. However, the geographical concentration remains high, with the majority of the portfolio in Rajasthan (52%) and Haryana (21%) as on March 31, 2024. The rest of the portfolio is in the neighbouring states/Union Territories (UTs) of Delhi NCR (10%), Uttar Pradesh (7%), Uttarakhand (5%), Punjab (3%) and Madhya Pradesh (2%). ICRA notes that the company is gradually increasing its presence in other markets and is adding new states. Also, the granular nature of the loan book (average ticket size of Rs. 9.5 lakh) mitigates the risk to some extent.

Liquidity position: Strong

UHFPL's liquidity position is strong with positive cumulative mismatches in the buckets up to one year, as per the provisional asset-liability maturity (ALM) profile as on March 31, 2024. For the 12-month period ending March 31, 2025, the company has debt repayments of Rs. 181 crore against which scheduled inflows from performing advances amount to Rs. 358 crore. Further, the liquidity is supported by cash and liquid investments of ~Rs. 215 crore as on May 31, 2024 (~Rs. 46 crore as on March 31, 2024), sanctioned and unutilised term loans of Rs. 310 crore and undrawn cash credit (CC) limits of Rs. 69 crore as on May 31, 2024.

UHFPL's borrowing profile is adequately diversified for the current scale of operations, with bank lines forming the largest share at 46.7% as on March 31, 2024. Securitisation and assignment (21.1%), NHB refinance (17.2%), external commercial borrowings (ECBs; 5.8%), debentures (4.5%), term loans from non-banking financial companies/financial institutions (NBFCs/FIs; 4.3%), and others (0.5%) accounted for the balance.

Rating sensitivities

Positive factors – A significant increase in the scale of operations while maintaining good asset quality and profitability indicators (RoMA of more than 3.0%) on a sustained basis.

Negative factors – A deterioration in the asset quality indicators, resulting in pressure on the profitability indicators, could negatively impact the rating. Managed gearing exceeding 4x on a sustained basis, would also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

UHFPL, a non-deposit-accepting affordable housing finance company registered with NHB, was incorporated in January 2016 and is based in Gurugram (Haryana). The company is promoted by Mr. Ashutosh Sharma, who has over 25 years of experience in banking and financial services. UHFPL commenced operations in August 2016 and is focussed on providing finance to underbanked customers with informal income and limited or no credit history in tier II/III/IV cities. It primarily operates in northern and western India through a network of 103 branches across seven states/UTs (Rajasthan, Haryana, Delhi NCR, Uttar Pradesh, Uttarakhand, Punjab, Madhya Pradesh) as on March 31, 2024.

Following the recent equity infusion of Rs. 300 crore, Mr. Sharma held an 18.3% stake in the company on a fully-diluted basis as on April 30, 2024. Other key investors include Norwest Capital (23.5%), Morgan Stanley (19.0%), A91 Partners (15.5%), Thyme Private Limited (10.8%) and others (12.9%).

In FY2024, the company reported a profit after tax (PAT) of Rs. 54 crore on a total managed asset base of Rs. 1,847 crore as on March 31, 2024 compared to a PAT of Rs. 35 crore in FY2023 on a total managed asset base of Rs. 1,242 crore as on March 31, 2023. The net worth stood at Rs. 648 crore with a managed gearing of 1.8x as on March 31, 2024 compared to Rs. 488 crore and 1.5x, respectively, as on March 31, 2023. The net worth increased further to ~Rs. 848 crore as on April 30, 2024, following the receipt of the second tranche of primary capital amounting to Rs. 200 crore. The gross and net NPAs stood at 0.5% and 0.1%, respectively, as on March 31, 2024 compared to 0.4% and 0.3%, respectively, as on March 31, 2023.

Key financial indicators (audited)

UHFPL	FY2021	FY2022	FY2023	FY2024*
Total income	91	109	161	244
PAT	11	19	35	54
Total managed assets	748	860	1,242	1,847
Return on managed assets	1.66%	2.32%	3.29%	3.48%
Managed gearing (times)	1.6	0.8	1.5	1.8
Gross NPA	0.7%	0.8%	0.4%	0.5%
CRAR	66.7%	99.9%	74.1%	62.9%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)^	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 19, 2024			
1	**Commercial paper programme**	Short term	55	0	**[ICRA]A1**	**NA**	**NA**	**NA**

^ As on June 13, 2024

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper programme	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA*	**Commercial paper programme**	NA	NA	NA	55	[ICRA]A1

*Source: Company; *Yet to be placed*

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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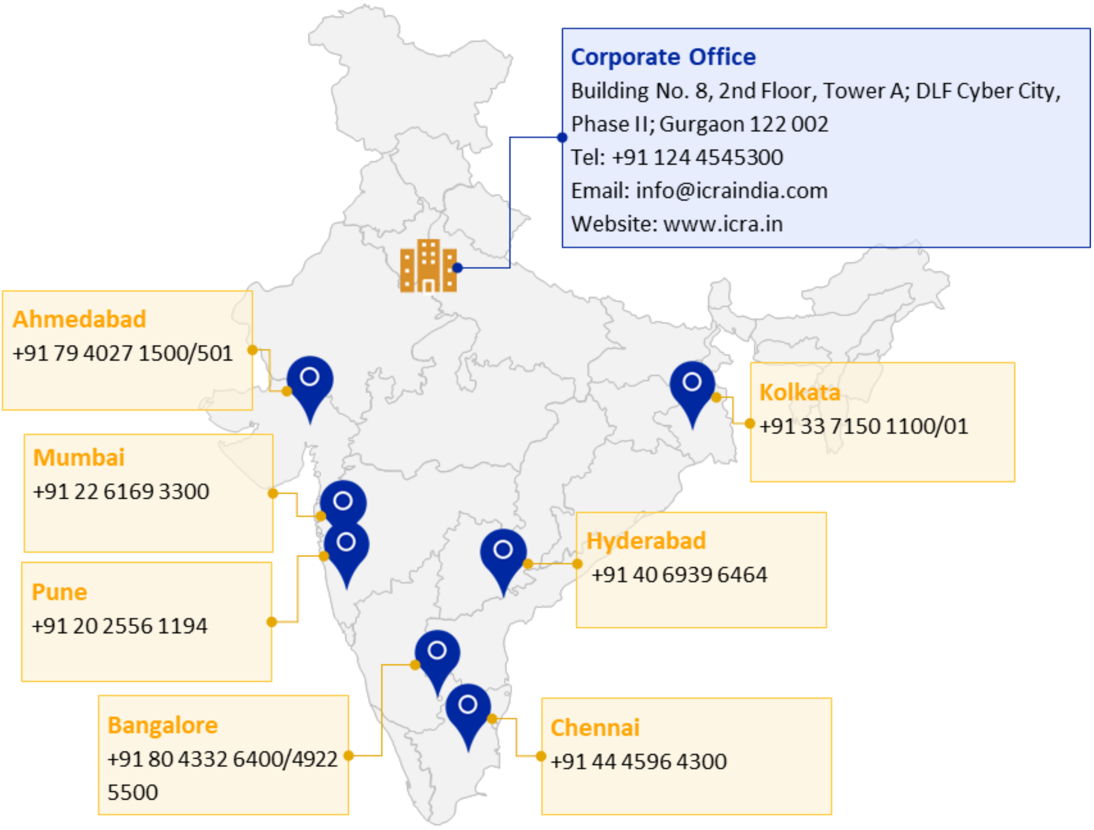

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