Ashv Finance Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	200.00	CARE BBB-; Negative	Reaffirmed
Non-Convertible Debentures	8.00	CARE BBB-; Negative	Reaffirmed
Non-Convertible Debentures	50.00	CARE BBB-; Negative	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings for debt instruments and bank facilities of Ashv Finance Limited (AFL) have been reaffirmed at BBB-; Negative Outlook. This rating reflects a decline in AFL's financial profile, as the company reported a loss of ₹110 crore in FY24 due to higher-than-anticipated credit costs. While there was a delay in the expected capital infusion in Q4 FY24, losses in Q1 FY25 decreased to ₹5.26 crore from ₹110 crore in FY24 suggesting a deceleration in capital erosion. To facilitate growth in assets under management (AUM) and enhance operating leverage, AFL anticipates a capital infusion in Q3 FY25 which will be key monitorable.

Ratings also consider consistent support from the company's promoter, the Aavishkaar Group, and investments from foreign institutional investors and a seasoned management team with few recent changes made at senior level and comfortable leverage and liquidity. However, ratings are constrained by the company's exposure to unsecured lending segment, a relatively moderate yet declining scale of operations, and moderate asset quality, which has been supported by write-offs and sales to asset reconstruction companies (ARCs). The company's ability to sustain asset quality and profitability, while scaling its business remains a key monitorable factor.

Rating sensitivities: Factors likely to lead to rating actions

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

- Improvement in the scale of operations on a sustained basis while capitalisation remaining comfortable.
- Robust profitability with ROTA above 1% on a sustained basis.
- Significant diversification in resource profile.
- Improvement in asset quality parameters.
- Fresh raise of sufficient capital to aid further growth

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

- Inability to raise sufficient capital to aid further growth
- Net NPA remaining above 5% on a sustained basis.

Analytical approach: Standalone

Outlook: Negative

The outlook has been retained as negative due to elevated credit costs and a declining AUM, which may adversely affect profitability and operational scale, particularly given the company's focus on unsecured business loans. However, this outlook could be revised to stable if there is an observable improvement in asset quality and profitability metrics.

Detailed description of key rating drivers:

Key strengths

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

Demonstrated support from promoter group and investment by strong institutional investors
AFL is part of the Aavishkaar Group, which is focused on developing impact ecosystems in Asia and Africa. On June 30, 2024, the Aavishkaar Group held 48.14% stake in AFL. The promoter group had cumulatively invested ₹150 crore in FY19 and FY20. In December 2023, the company has raised equity of ₹91.30 crore, of which, ₹74.70 crore was raised from ESF Holdings II and ₹16.60 crore from Teachers Insurance and Annuity Association of America. The company is also backed by foreign institutional investors like Omdiyar Network (ON), Mauritius, ESF Holdings II, DWM (International) Mauritius, Teachers Insurance and Annuity Association of America & Tridos.

Demonstrating a high level of engagement, the Aavishkaar Group actively participates in the company's governance through its representation on the board and is taking an active role in discussions with the key stakeholders including lenders and investors. CARE Ratings Limited (CARE Ratings) expects the Aavishkaar Group to provide continued support to AFL.

Experienced management team

AFL's Board of Directors is headed by Vineet Rai. Rai is the founder and Chairman of the Aavishkaar 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. AFL has seen few recent senior managements exits, which has now been backfilled. The company has recently appointed a new CFO, Amit Kothari to lead its financial operations. A new collection head from internal talent pool was also appointed to monitor and improve the collections. AFL has also added R K Mathur erstwhile LG of Ladakh, former CIC, Defense Secretary, Secretary Defense Industrial Production & MSME Secretary to its Board as an Independent Director in February 24 to strengthen its Board-level governance.

Comfortable Capitalisation

AFL has maintained a comfortable capitalization level. During Q1FY25, the CRAR of the company stood at 28.23% (FY23: 20.75%) and Tier-1 capital stood at 26.87% (FY23: 19.91%). Gearing has improved from 3.93 times as on March 31, 2023 to 3.43 times as on March 31, 2024 because of the equity infusion done. This improved to 2.93 in Q1 FY25, attributed to a reduction in borrowings. The management anticipates additional equity infusion in FY25 to enhance liquidity and support growth in the loan portfolio. Although the current capital buffer is adequate for medium-term growth, the anticipated infusion is essential for accelerating growth to historical levels and for providing a cushion against potential asset-side shocks. The tangible net worth for FY24 was ₹161.13 crore, a decline from ₹192.71 crore in FY23, and further reduced to ₹159.93 crore in Q1 FY25, primarily due to rising losses.

AFL's ability to raise fresh funds to expand operations will remain a key monitorable for CARE.

Key weaknesses

Moderate albeit declining scale of operations

The Assets Under Management (AUM) experienced a significant decline over the last few years. On March 31, 2024, the AUM stood at ₹781 crores declining from ₹1,070.20 crores in March 31,2023 reflecting a degrowth of 32.20%. The downward trend continued, with AUM falling to ₹725.56 crores by June 30, 2024. Despite AFL's disbursements of approximately ₹193 crores since January 2024, higher levels of prepayments and book runoff have resulted in an overall decrease in AUM.

AFL primarily offers unsecured financing to micro, small, and medium enterprises (MSMEs), partnerships, book buyouts, and for on-lending purposes. As of June 30, 2024, MSME loans constituted 98.4% of the total AUM, while the remaining 1.5% included partnerships and book buyouts (0.96%), on-lending (0.09%), and a legacy book (0.49%). In terms of loan composition, AFL's portfolio consists of 86.34% unsecured loans and 13.66% secured loans. Geographically, as of June 30, 2024, the company's portfolio is diversified across 19 states in India. Top state Maharashtra accounted for 28.66% of the total loan book, followed by Gujarat at 11.46% and Telangana at 8.92%.

AFL's ability to successfully scale-up its businesses, while maintaining asset quality will be a key monitorable.

Weak earnings profile

Despite a decrease of approximately 27% in Assets Under Management (AUM) for FY24, the overall net interest margin (NIM) declined by around 23.8%, indicating some stability in margins. However, due to increased credit costs, higher operational expenses, and reduced interest income, Ashv Finance reported a significant loss of approximately ₹110 crores for FY24. The company also experienced write-offs totalling ₹113 crores during the fiscal year, contributing to these substantial losses. The credit cost for FY24 rose to 11.78%, compared to 4.11% in FY23. This trend persisted into Q1 FY25, though it decreased to losses of ₹5.26 crores. Consequently, AFL's profitability remains under pressure from elevated operational and credit costs, alongside slower growth in the loan book.

CARE Ratings will continue to monitor AFL's ability to significantly scale up the portfolio amidst increasing competition, and its ability to manage credit costs, operating expenses and profitability metrics.

Moderate asset quality

In early FY24, AFL experienced significant departures within its Senior Management, including the Chief Risk Officer (CRO) and the Head of Collections. This shift notably impacted the Collections function during Q1 and Q2, compounded by the exit of three Regional Collection Heads and additional departures from the field team and collection agencies. As of March 31, 2024, the company's Gross Stage 3 assets stood at 4.15%, compared to 4.74% in FY23, and subsequently declined to 2.73%. The improvement in asset quality is attributed to a combination of write-offs, sales to asset reconstruction companies (ARCs), and recoveries. In FY24, the company wrote off ₹113.82 crores (20.36% of the loan book), a significant increase from ₹40 crores (5.04% of the loan book) in FY23. Additionally, it sold a non-performing asset (NPA) portfolio valued at ₹147.65 crores, which included a written-off amount of ₹120.62 crores, to ARCIL—an asset reconstruction company—in a cash plus security receipt transaction at the end of June 2024. The recovery from this sold pool in June 2024 amounted to ₹1.4 crores, with security receipts expected to yield further recovery over the next three years.

As indicated by management, the Collections & Recovery team strengthened its workforce through replacement hiring and introduced single person accountability with a new Head of Collections & Recovery and a Recovery Specialist. Agency payouts and incentive structures were revamped to align with market practices. The number of collection agencies increased from 6 to 19, ensuring full geographic coverage. Key process improvements included a new tele-calling operator and more seamless transitions between teams, with a focus on early action and more aggressive settlements for 270+ DPD cases. Additionally, the team subscribed to CIBIL's 'Risk Triggers' for proactive follow-ups and is exploring more frequent scrubs to monitor high-risk customers. The company identified the regions and sectors that reported larger set of delinquencies and stopped disbursements for the same. There has been active vigilance on how the portfolio is behaving to a granular level. Commercial settlement has also begun. The new loan book (disbursements done since June 2023) has demonstrated improved performance, with a 90+ delinquency rate of 1.76% since June 2023. Furthermore, the average collection efficiency over the past 12 months is 90.8%, and this is expected to improve with renewed focus on collections.

CARE Ratings believes that AFL's asset quality shall continue to remain anchored on the income profile of the underlying borrowers, as majority of them are self-employed borrowers and their cash flows remain vulnerable to economic shocks. However, the company's asset quality and profitability could still be impacted by credit costs in weaker economic cycles and hence remains to be a key rating sensitivity going forward.

Moderate funding profile

Reporting substantial losses in FY24 had impacted subsequently AFL's fund raising which consequently impacted its business operations in FY24 and Q1FY25. The management has been actively engaging with bankers and investors to avail funding lines and has been able to raise funds aggregating to ₹57.44 crore in FY24 from NBFCs. As on June 30, 2024 term loans form 56.62% of the borrowings, followed by NCDs which form 33.10% and balance 10% through sub debt, ECBs and PTCs.

In terms of lender the company has a concentrated borrowing profile with ~50% of the borrowings are from NBFCs. In terms of number of lenders, the same have decreased from 44 in FY23 to 39 in FY24 and further decreased to 33 in Q1FY25. The average cost of borrowing for the last 6 months has been 13.55%.

Accordingly, the company's ability to avail funds at competitive rates while diversifying its borrowing mix is a key rating monitorable.

Liquidity: Adequate

The company's ALM as on June 30, 2024, showed no negative cumulative mismatches in any of the buckets up to one year. As on June 30, 2024, the company reported unencumbered cash and bank balance and liquid investments of ₹52.16 crore (including FD lien marked against OD), ₹148.41 crore worth of advances (only principal) in the next six months as against debt obligation (principal) of ₹191.72 crore for the next six months providing adequate liquidity cover. the company's ability to avail funding lines and rollover the debt will be a rating monitorable.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Non Banking Financial Companies

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial Services	Financial Services	Finance	Non-banking Financial Company (NBFC)

AFL (erstwhile Jain Sons Finlease Limited) is an NBFC incorporated in February 1998. On October 08, 2020, the company received approval from Registrar of Companies for change in the name from "Jain Sons Finlease Limited" to "Ashv Finance Limited". Ashv is a tech-led NBFC, empowering small and emerging businesses of India. It is engaged in funding the MSME sector through products 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 impact ecosystem in Asia and Africa. The group is led by Vineet Rai, the founder and CEO of the group. AFL started its lending operations in 2013. Until FY19, the company used to lend to mid-and-high-end corporates through venture debt financing, which had a ticket size of ₹1-10 crore. However, asset quality of the loan book started getting impacted and with asset quality issues. This was when the company decided to revamp its business model and deal only in smaller ticket size and started with MSME lending. The company's revamping started in October 2018.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	220.85	185.11	41.63
PAT	6.07	-110.14	-5.26
Total Assets	1,145.09	760.80	664.30
Net NPA (%)	2.25	1.93	0.85
ROTA (%)	0.59	-11.56	-2.95

A: Audited UA: Unaudited; Note: these are latest available financial results * Ratios are annualised for Q1FY25.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Debentures - non - convertible debentures	INE411R07145	27-May-2022	12.25%	27-Nov-2028	15.00	CARE BBB-; Negative
Debentures - non - convertible debentures	INE411R07178	30-Aug-2022	13.15%	30-Sep-2024	7.20	CARE BBB-; Negative
Debentures - non - convertible debentures (Proposed)	-	-	-	-	35.80	CARE BBB-; Negative
Fund-based - LT-Term Loan	-	-	-	June-2026	26.34	CARE BBB-; Negative
Fund-based - LT-Term Loan (Proposed)	-	-	-	-	173.66	CARE BBB-; Negative

Annexure-2: Rating history for 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 2024-2025	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
1	Debentures-Non Convertible Debentures	LT	8.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (26-Feb-24) 2)CARE BBB; Stable (06-Jul-23)	1)CARE BBB; Stable (31-Jan-23) 2)CARE BBB; Stable (24-Jun-22)	1)CARE BBB; Stable (28-Jun-21)
2	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (26-Feb-24) 2)CARE BBB; Stable (06-Jul-23)	1)CARE BBB; Stable (31-Jan-23) 2)CARE BBB; Stable (24-Jun-22)	1)CARE BBB; Stable (28-Jun-21)
3	Fund-based - LT-Term Loan	LT	200.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (26-Feb-24) 2)CARE BBB; Stable (06-Jul-23)	1)CARE BBB; Stable (31-Jan-23) 2)CARE BBB; Stable (24-Jun-22)	1)CARE BBB; Stable (28-Jun-21)

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

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

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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 raise 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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