Aavas Financiers Limited

Issue Snapshot:

Issue Open: Sept 25 – Sept 27 2018

Price Band: Rs. 818 – 821

*Issue Size: 21,121,466 Equity Shares (Comprises of Fresh issue of 4,872,107 eq sh+ offer for sale of 16,249,359 eq sh)

Offer Size: Rs.1727.7 crs – 1734.1 crs

QIB	Upto	50% eq sh
Non Institutional	atleast	15% eq sh
Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 166.45 (June 30, 2018)

Bid size: - 18 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 73.72 cr
Post issue Equity:	Rs. 78.59 cr

Listing: BSE & NSE

Global Co-ordinator and Book Running Lead Manager: ICICI Securities Limited, Citigroup Global Markets India Private Limited, Edelweiss Financial Services Limited, Spark Capital Advisors (India) Private Limited,

Book Running Lead Manager: HDFC Bank Limited

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	81.26	57.17
Public	18.74	42.83
Total	**100.0**	**100.0**

Source for this Note: RHP

* = Assuming issue subscribed at the higher band

Background & Operations:

Aavas Financiers Ltd (AFL) is a retail, affordable housing finance company, primarily serving low and middle income self employed customers in semi-urban and rural areas in India. A majority of its customers have limited access to formal banking credit. The Company had the lowest Gross NPAs as of March 31, 2018 and the second highest growth rate of assets under management for the last three financial years, among affordable housing finance companies that had assets under management between Rs 25 billion and Rs 200 billion. It offers customers home loans for the purchase or construction of residential properties, and for the extension and repair of existing housing units. As of June 30, 2018, a majority of the home loans that it disbursed were for single-unit properties, almost all of which were to be occupied by the borrowers themselves. In addition to home loans, it offer its customers other mortgage loans including loans against property, which accounted for 24.18% of its Gross Loan Assets as of June 30, 2018.

AFL has adopted a strategy of contiguous on-ground expansion across regions and as of June 30, 2018, it conducted its operations through 166 branches covering 95 districts in eight states of which, it has a significant presence in the four states of Rajasthan, Gujarat, Maharashtra and Madhya Pradesh. Almost all its customers are sourced directly by the company, and as of June 30, 2018, it employed 1,996 personnel and had 57,049 loan accounts including securitized and assigned cases.

AFL secure financing from a variety of sources including term loans and working capital facilities; proceeds from loans assigned and securitized; proceeds from the issuance of non-convertible debentures ("NCDs"); refinancing from the National Housing Bank ("NHB"); and subordinated debt borrowings from banks, mutual funds, insurance companies and other domestic, foreign and multi-lateral financial institutions to meet its capital requirements. The Company is registered with the NHB as an HFC and commenced its operations in Jaipur, Rajasthan in March 2012. It was initially promoted by Au Financiers (India) Limited, (now known as AU Small Finance Bank Limited ("AuSFB")), which sold 90.10% of the outstanding equity interest of the Company in connection with its conversion to a small finance bank, to Lake District Holdings Limited (a subsidiary of Kedaara Capital I Limited) ("Lake District"), Kedaara Capital Alternative Investment Fund - Kedaara Capital AIF 1 ("Kedaara AIF-1"), Partners Group ESCL Limited ("ESCL") and Partners Group Private Equity Master Fund LLC ("Master Fund") in June, 2016.

Objects of Issue:

The Offer comprises a Fresh Issue by AFL and an Offer for Sale by the Selling Shareholders.

Fresh Issue & OFS

The object for which the Net Proceeds of the Fresh Issue will be utilized towards increasing Company's Tier I capital base to maintain the minimum capital adequacy ratio and to meet future capital requirements arising out of growth in the business. Further, AFL expects that the listing of the Equity Shares will enhance visibility and brand image among its existing and potential customers. AFL will not receive any proceeds of the Offer for Sale by the Selling Shareholders. Each Selling Shareholder shall reimburse AFL's for all expenses incurred by the Company on behalf of such Selling Shareholders, in relation to the Offer.

Competitive Strengths

Strong Distribution Network with Deep Penetration Serving Underserved Customers in Rural and Semi-Urban Markets: AFL commenced its operations in March 2012 with a focus on serving low and middle income self employed customers in the rural and semi-urban markets and are currently present in eight states in India. It commenced its operations in rural areas and small towns and has followed an approach of targeting geographies with low credit penetration. Its branches are predominantly located in rural and semi-urban areas and as of June 30, 2018, of its 166 branches, 134 branches were located in towns with a population of less than one million people. Understanding of the local characteristics of markets has allowed AFL to address the unique needs of its customers and enabled to penetrate deeper into such markets. It has successfully adopted a strategy of on-ground contiguous expansion across regions and as of June 30, 2018, itconducted its operations in 757 tehsils across 95 districts in eight states. A large segment of India's rural and semi-urban population is currently unserved and underserved by formal financial institutions. Over the years, it has focused on customers in such markets that offers significant growth opportunities and customer loyalty. As of June 30, 2018, 61.22% of its Gross Loan Assets were from customers who belonged to the economically weaker section and the low income group, earning less than Rs 50,000 per month and 36.27% of its Gross Loan Assets were from customers who were new to credit. Catering to self-employed customers requires a special skillset in absence of requisite income proofs as lending to them, is based on an assessment of their income through various methods, including their cash flows. Self-employed customers are also more vulnerable to economic cycles and lending to them requires robust underwriting systems to price the risk appropriately. (Source: ICRA Report) As a result of AFL's expertise, experience and business model, it is able to effectively serve such customers and grow its business. It has also demonstrated an ability to replicate its business model in eight states, while maintaining its asset quality.

In-house Sourcing Model leading to Superior Business Outcomes: AFL believes in sourcing its customers directly, and maintaining on-going relationships and contact with them. A majority of its customers are borrowers who have been referred to it by existing or former customers and its branches act as a single point of contact for them. The personnel at its branches are responsible for sourcing loans, carrying out preliminary checks on the credit worthiness of a prospective customer, providing assistance in documentation, disbursing loans and in monitoring repayments and collections. It has implemented an analytics platform with a pre-defined approval matrix, which expedites the processing of loan applications. Its credit and sales teams work with lawyers and technical agencies empaneled by it and that effective coordination between its branch offices and its head office allows the company to reduce turn around time for its customers. A direct sourcing and collection system enables to optimally price its offerings and maintain asset quality. AFL's ability to directly control the end-to-end process has helped it to reduce average turn-around-time from 21 days during Fiscal 2014 to 13 days during Fiscal 2018, and it was able to achieve a turn-around-time of 10 days in 54.22% of the cases during Fiscal 2018. AFL has developed strong relationships with its customers through in-person contact by addressing their financial needs in a timely and requisite manner, its knowledge of the local markets and its widespread network of branches. Its customer-centric approach has been one of the key reasons for its growth, profitability and asset quality, and helps it differentiate itself from its competition.

Robust and Comprehensive Credit Assessment, Risk Management and Collections Framework*:* AFL has implemented a robust and comprehensive credit assessment, risk management and collections framework to identify, monitor and manage risks inherent in its operations. As part of its credit policy, it finance primarily retail customers and do not provide finance to builders, which helps in maintaining its asset quality. As of June 30, 2018, a majority of the home loans that it disbursed were for single-unit properties, almost all of which were to be occupied by the borrowers themselves. As of June 30, 2018, its home loans and other mortgage loans had an average loan-to-value of 51.78% and 45.78%, respectively, at the time of the sanctioning of the loan, resulting in Gross Loan Assets having an average loan-to-value of 50.33% at the time of the sanctioning of the loan. Since the commencement of AFL's operations in March 2012, it has served more than 62,500 customers. To assist with its credit assessment and risk management functions, AFL has created more than 60 templates of customer profiles through its experience over the years, with risk assessment measures for each geography in which it operates. AFL continuously seeks to develop and update such profiles in order to identify and source reliable customers and improve its efficiencies. It also conduct an analysis of the existing cash flow of a customer's business to assess their repayment abilities. Its credit team has been set up as a separate vertical and does not report to its business team across levels. In addition, members of AFL's sales team are also responsible for monitoring and maintaining its asset quality. As of June 30, 2018, the ratio of the number of members in its credit team to its sales team was approximately 1:2.5. It has implemented a four prong system of credit assessment comprising underwriting, legal assessments, technical assessments and a risk containment unit.

Access to Diversified and Cost-Effective Long-Term Financing: AFL's treasury department is responsible for its capital requirements and asset liability management, minimizing the cost of its borrowings, liquidity management and control, diversify fund raising sources, managing interest rate risk and investing surplus funds. Over theyears, it has secured financing from a variety of sources including term loans and working capital facilities; proceeds from loans assigned and securitized; proceeds from the issuance of NCDs; refinancing from the NHB; and subordinated debt borrowings from banks, mutual funds, insrance companies and other domestic and foreign financial and multi-lateral institutions to meet its capital requirements. It securitize and assign loans through securitization or direct assignment to banks and financial institutions, which enables it to optimize its cost of borrowings, funding and liquidity requirements, capital management and asset liability management. AFLcarefully monitors the contractual maturity periods of its assets and liabilities and categorize them on the basis of the number of years in which they mature. As of June 30, 2018, the weighted average duration of its Gross Loan Assets was 169.48 months on origination, while the weighted average duration of its outstanding borrowings and securitization and assignment was 134.15 months.

Itcurrently has a favourable asset-liability position across all categories and a significant majority of its liabilities mature over five years, which assists it in mitigating liquidity and interest rate risks. AFL has been able to access cost-effective debt financing due to its stable credit history, improving credit ratings and conservative risk management policies. It has made significant investments in its information technology systems and implemented automated, digitized and other technology-enabled platforms and proprietary tools, to strengthen its offerings and derive greater operational, cost and management efficiencies. the adoption of digital service delivery mechanisms enables AFL to be more efficient, customer friendly and over time perform more reliable data analytics, resulting in target customer profiling, customized and tailor-made products to suit the diverse requirements of its customers and improved customer satisfaction.

Effective Use of Technology and Analytics to build a Scalable and Efficient Operating Model: AFL has made significant investments in information technology systems and implemented automated, digitized and other technology-enabled platforms and proprietary tools, to strengthen offerings and derive greater operational, cost and management efficiencies. Between FY14 and FY18, the company has invested Rs150.45 mn in information technology systems and as of June 30, 2018. Information technology systems help the company with several functions, including:

Origination: It utilize a mobile application through which almost all its leads are recorded, which assists in the monitoring and tracking of leads from an early stage and generating a credit appraisal memorandum, resulting in lower costs and an increase in productivity. It has developed and implemented a business information management system to track and monitor the status of loan documentation and turn around time.It has also developed and implemented an application scorecard to predict the risk profile of borrowers, including for its first-to-credit customers.

Underwriting: AFL utilize an enterprise-wide loan management system, OmniFin, to provide an integrated platform for credit processing, credit management, general ledger, debt management and reporting. OmniFin also assists with automation of loan origination system, credit underwriting process, underwriting rule engine, deviation triggers to minimize human errors, branch accounting system and maintaining customer history. It also use an application for the geo tagging of properties, which has helped to reduce its turn around time for approving loans, as well as achieve a higher accuracy in determining the loan-to-value ratio. AFL has implemented e-KYC measures whereby a customer's credit score is automatically retrieved resulting in faster processing times.

Collections: AFL has developed a statistical algorithm to predict the probability of default, which helps in obtaining early signals of potential defaults and mitigate risks. It conduct real time tracking of its collections personnel and has provided them with hand held devices to enable them to issue e-receipts to its customers.

Customer service and retention: AFL has implemented an online payment gateway on its website to enable its customers to make online payments. It perform predictive analytics to identify cases of balance transfer and proactively seeks to retain such clients. It has also developed new products and strategies such as 'Aavas Plus', Aavas Refresh' and 'Aavas Winback', which it use in collaboration with its analytics platform to improve customer satisfaction and retain its customers.

Experienced Management Team: AFL is led by qualified and experienced key managerial personnel, who are supported by a capable and motivated pool of managers and other employees. Its management team has extensive knowledge and understanding of the housing finance business and the expertise and vision to organically scale up its business. They also have diverse experience in a range of financial products and functions related to its business and operations. Further, its branch managers have an in-depth understanding of loan products, types of collateral and businesses of its borrowers. Its shareholders include marquee investors such as Lake District, Kedaara AIF-1, ESCL and Master Fund and it has benefited significantly from their vision and leadership, and along with its senior management, has been instrumental in formulating and executing the core strategy of the Company.

Business Strategy:

Expand Branch Network to Achieve Deeper Penetration*:* While historically most of AFL's operations were focused in Rajasthan, Maharashtra, Gujarat and Madhya Pradesh, it has grown its operations in relatively newer markets such as Delhi, Haryana, Uttar Pradesh and Chhattisgarh. Its current operating model is scalable, which will assist in expanding its operations with lower incremental costs to drive efficiency and profitability. It intends to continue to expand in an on-ground contiguous manner, to drive greater and deeper penetration in the eight states in which it operate and set up an additional 70 branches during Fiscal 2019. AFL's expansion strategy would continue to grow contiguously by rolling-out new branches in tehsils with low mortgage penetration levels. When it enter a new state through contiguous expansion, it would open new branches in district head-quarters and then expand deeper by deploying personnel to tehsils adjacent to them to source new customers. As of June 30, 2018, AFL had reached an approximate tehsil level penetration of 78.69%, 70.67%, 54.90%, 47.95%, 13.51%, 22.22%, 0.96% and 18.12% in the states of Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Haryana, Delhi, Uttar Pradesh and Chhattisgarh, respectively, thus providing the scope to continue to grow its business further in these states. It intends to achieve a tehsil level penetration of approximately 85% in all the states in which it operate. It also intends to commence operations in the state of Uttarakhand during Fiscal 2019.

Continue to Focus on Low and Middle Income Self Employed Customers*:* AFL plans to continue to focus on low and middle income self employed customers and increase the market share of its existing products in the rural and semi-urban markets of India. A large segment of India's rural and semiurban population is currently unserved or underserved by formal financial institutions comprising customers without any credit history and that such customer segment offers significant growth opportunities and customer loyalty. AFL intends to cross-sell products to its existing customers and develop long-term relationships with them. Further, it intend to continue to focus on disbursing loans to underserved low and middle income customers primarily for the purchase and construction of single unit houses, as part of its risk mitigating strategy. It also intends to increase its fee income through the distribution of thirdparty life, general and health insurance products.

Diversify Borrowing Profile to Optimize Borrowings Costs: AFL secure funding from a variety of sources to meet its capital requirements.It has been able to access cost-effective debt financing and reduced its average cost of borrowings over the years due to several factors, including its financial performance and improving credit ratings. As it continue to grow the scale of its operations, it seeks to reduce its dependence on expensive term loans from banks and financial institutions, optimize its cost of funds and continue to improve its credit ratings. A lower average cost of borrowing enables to competitively price its loan products and helps it to grow its business and operations and increase its net interest margins Further, AFL intends to continue to increase its lender base which has increased from 13 as of March 31, 2014 to 36 as of June 30, 2018, and seeks to obtain funding from insurance, pension and provident funds, overseas lenders, external commercial borrowings and through the issue of commercial paper. It also intends to continue to focus on improving its asset and liability management to ensure that it continue to have a positive asset-liability position. As a result of such initiatives, AFL will be able to continue improving its credit ratings and reduce the cost of its borrowings.

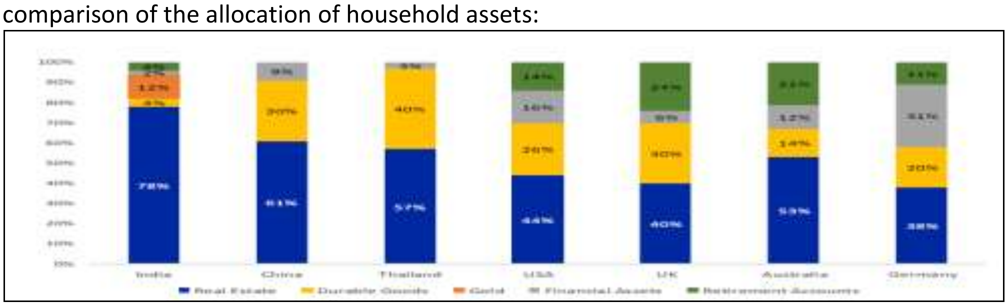
Increase Product Portfolio and Improve Cost Efficiency through Use of Technology and Data Analytics: AFL has made significant investments in its information technology systems to improve cost efficiency and as it continue to expand its geographic reach and scale of operations, it intends to further improve and leverage such systems to support its growth and reduce its operational expenditures. In addition, it has developed certain products and customer retention strategies, which it use in collaboration with its analytics platform to grow its business. Through AFL's product 'Aavas Plus', it offers incremental loans, with a low turn around time, to existing customers who have been servicing their loans regularly and has low LTVs. 'Aavas Refresh' is a customer retention strategy for customers who regularly service their loans and whose repayments are reaching completion. 'Aavas Winback' targets customers whose loans are either foreclosed or closed on maturity, or those who did not avail a previously sanctioned loan. Such products and strategies help AFL to grow its business, retain good customers and improve realizations. As it further develop and integrate technology into its business, it can further capitalize on the reach of its offices and increase its market share. Greater adoption of digital service delivery mechanisms will enable AFL to be more efficient, customer friendly and over time perform more accurate data analytics, resulting in target customer profiling, cross-selling of products, customized and tailor-made products to suit the diverse requirements of its customers and improve customer satisfaction.

Enhance Brand Recall to Attract New Customers: Having a strong recognizable brand is a key attribute in AFL's business, which helps it to attract and retain customers, increases customer confidence and influences purchase decisions. Having a strong and recognizable brand has also assisted the company in recruiting and retaining employees. It intends to continue to undertake initiatives to increase the strength and recall of its 'Aavas' brand to attract new customers. It seeks to build its brand by engaging with existing and potential customer's through customer literacy programs, sponsor popular events in the regions it operates and advertise in newspapers, hoardings, television, radio and in other advertising media.

Industry:

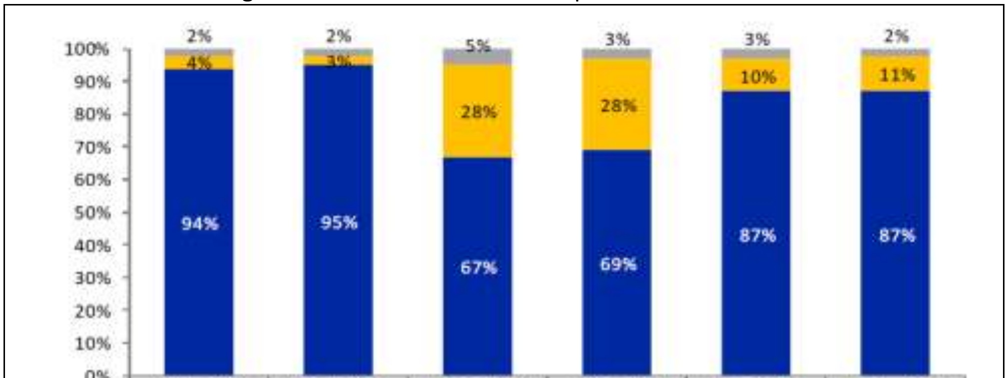
The Indian Housing Scenario

As per the Report of the Household Finance Committee, published by RBI in July 2017, the average Indian household holds 78% of its total assets in real estate which is significantly higher than other countries such as US (44%) and Germany (37%) where households hold substantially more financial assets than their Indian counter parts indicating the tendency of Indian households to own houses. The following chart sets forth a global comparison of the allocation of household assets:



In 2011, on an aggregate basis, 87% of approximately 247 million households in India stayed in owned houses. The ownership status in rural areas was significantly higher at 95%.

The following chart sets forth the ownership status of Indian households:



	Rural - 2001	Rural - 2011	Urban - 2001	Urban- 2011	India - 2001	India - 2011
Other	2%	2%	5%	3%	3%	2%
Rented	4%	3%	28%	28%	10%	11%
Owned	94%	95%	67%	69%	87%	87%

The Housing Shortage in India

Despite the high ownership rates of houses, there is a significant housing shortage in India. The overall housing shortage is due to changing social and demographic patterns in India, such as rising urbanisation and the nuclearization of families. For the twelfth plan period (2012 to 2017), shortage of housing units in India has been estimated to be 18.8 million and 43.7 million in urban areas and rural areas, respectively.

Urban Housing Shortage

Approximately, 95.21% of the urban housing shortage occurred among the economically weaker sections and low income groups. The overall potential market for housing finance in the affordable segment would be RS 5.6 trillion to RS 12 trillion in the urban segment, the potential is based on the housing shortage, the estimated price of an average house (RS 500,000 to RS 800,000 per house) and the average housing loan amount at an LTV of 60 to 80%.

Needs for Home Extension and Home Improvement

In 2011, overall, 41% of the households were living in less than one room homes and 53% of the households were in good condition, implying a need for home improvement and home extension given the average family size of 4.8.

Low Mortgage Liabilities

The share of mortgage liabilities is low, reflected in the low mortgage penetration levels in India. Low mortgage finance penetration in India has primarily occurred due to housing finance being offered largely to individuals with reported incomes, therefore creating a lack of access to finance for a large proportion of individuals working as self-employed or in the informal sector. Mortgage penetration levels (housing loans as a percentage of GDP) in India, have increased to 10% as on March 31, 2018 from 8.0% as on March 31, 2014. However, they continue to remain lower than other developed countries and have significant scope to increase in the future. Many large Indian States such as Bihar, Uttar Pradesh, Orissa and Punjab are less penetrated than the overall Pan India mortgage penetration.

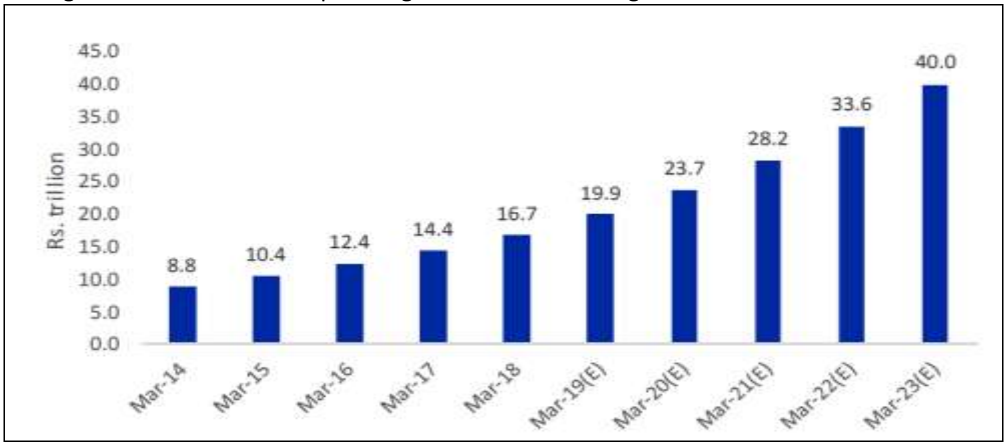
Overall Credit Penetration

India's credit to GDP ratio was approximately 56.8% in September 2017, which is lower than most peer emerging and large economies and it is lower than the global average of approximately 153%. India's credit to GDP ratio declined from 61.7% in March 2014 to 56.8% in September 2017. Indian household participation in the financial markets for investments or for borrowings has been lower than other emerging or developed economies. Approximately 78% of the total assets of Indian households are in real estate. However, mortgage liabilities are approximately 23% of the total liabilities as compared to 60% in other large economies; although, the share of real estate in household assets ranges from 40 to 60% in these economies. Indian households have a high share of unsecured debt, about 56% of the total liabilities, indicating high reliance on informal or non-institutional credit.

Growth Outlook and Drivers.

The Indian housing finance market has grown at a CAGR of 18% over the last five years and is expected to grow at CAGR of 18 to 20% over the next five years.

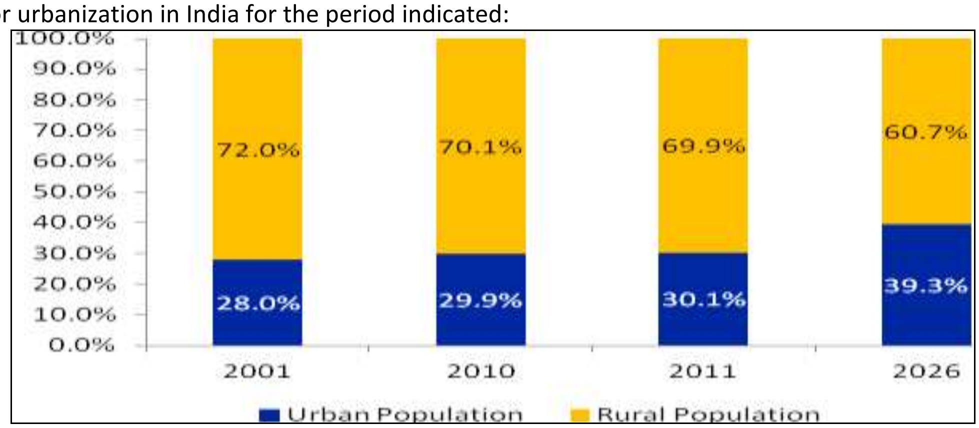
The following chart sets forth the expected growth of the housing finance market over the next five years:



Structural Factors

Rising Urbanisation and Nuclearization

Rising urbanisation and nuclearization are expected to keep demand for housing units in urban areas high. The following chart sets forth trends and projections for urbanization in India for the period indicated:



Independent housing

Indians traditionally prefer to live in independent houses. However, the increasing population density especially in urban areas, has increased the demand for flats. As of 2001, 74.4% Indians were living in independent houses and 10.2% were residing in apartments.

Government and Regulatory Thrust

The affordable housing segment has historically been underserved by organized real estate developers on account of concerns on pricing flexibility and margins in such projects and limited credit availability for end customers. To address these issues, the Government has announced various programs and incentives for the promotion of the affordable housing segment. The key measures taken include providing infrastructure status for the affordable housing segment, relaxation of criteria for eligibility for tax exemption for developers under Section 80IBA and increased allocation for the Pradhan Mantri Awas Yojana (“**PMAY**”) program. Tax exemptions are expected to incentivize many developers in the organized sector to enter the affordable housing segment. The measures announced by the Government may encourage increased investments in this sector that can enable such developers to increase their operations. Many of the larger developers who traditionally focused on mid to premium segment projects have also announced their intent to enter this segment

Pradhan Mantri Awas Yojana-Urban

The Government launched the ‘Housing for All’ mission under PMAY in June, 2015. The mission attempts to address the supply and demand constraints that had affected growth of the sector in the past. As a supply side intervention, the Government proposes to encourage public-private partnerships in building homes for the economically weaker sections and the low income groups by offering incentives such as allowing a higher floor space index (“**FSI**”) and through announcing grants and subsidies for slum redevelopment programs. On the demand side, the Government proposed a credit-linked subsidy capital, which could be as high as 44% (RS 267,000) for a loan of up to RS 600,000. On December 31, 2016, two new middle income categories were introduced under the scheme, loans of up to RS 900,000 and RS 1,200,000 with subvention of 4% and 3%, respectively. The income eligibility criteria for the two categories are overall household incomes of RS 1,200,000 and RS 1,800,000, respectively.

Pradhan Mantri Awas Yojana - Grameen

This scheme, targeted at the rural population who currently do not own permanent homes, provides an assistance of RS 70,000 to RS 120,000 per beneficiary in the plains and RS 75,000 to RS 130,000 in hilly states and areas that are difficult for the construction of new houses. The cost of financial assistance is to be shared between the Government and state government in the ratio 60:40 in plain areas and 90:10 for north eastern and the Himalayan states. From the annual budgetary grant for PMAY - Grameen, 90% of the funds are to be released to states and union territories for the construction of new houses with the remaining being retained for administrative expenses and special projects. The Pradhan Mantri Awas Yojana - Grameen also includes a home loan interest subsidy scheme which is operated in a similar manner as the CLSS under Pradhan Mantri Awas Yojana - Urban.

Improved Affordability for the End Borrower

Home buyers receive tax incentives on home loans for principal and interest payment of home loans. Tax benefits are available on home loans for principal repayment and the interest paid. Principal repayment qualifies for tax deduction under section 80C of the Income Tax Act, 1961. Deduction of up to RS 0.2 million for interest payment on home loans are offered under section 24(b) of the Act. First-time homebuyer can claim additional tax deductions of up to RS 50,000 per Fiscal under section 80EE, if the certain conditions are met. Tax incentives on home loans for both principal and interest repayment and the subsidy under CLSS for economically weaker sections, low income groups and middle income groups have improved affordability levels of the borrowers and first-time buyers and are expected to increase demand.

Regulatory Framework

Low Risk weights and Standard Assets Provisioning on home loans

Low risk weights and standard asset provisioning for individual home loans incentivises lenders to lend to the segment and reaffirms the regulatory impetus to a segment that has forward and backward linkages to the economy and has stood resilient to asset quality pressures over cycles.

RERA to Improve Transparency and Accountability in the Sector

Implementation of the Real Estate (Regulation and Development) Act ("**RERA**"), with effect from May 1, 2017 brought about a change in the way the real estate sector operated. It was beset by issues such as delays in possession and completion of projects, skewed builder-buyer agreement terms favouring the developers, prevalence of cash in property transactions and existence of many developers who had limited financial and operational experience in carrying out real estate business. Consequent to many such issues resulting in declining consumer confidence, overall elevated prices and subdued macro environment, the real estate sector witnessed a slowdown in demand. The implementation of RERA is expected to improve transparency and accountability in the sector.

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act

The Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act ("**SARFAESI**"), allows lenders to repossess and sell properties when an account turns into a non-performing asset and borrowers fail to repay their loans. Over time, SARFAESI has proved to be an effective tool in the lender's hands and has acted as a deterrent against wilful defaults. Various amendments were made to SARFAESI in 2015 and 2016 to strengthen the process and include a wider set of lenders. 41 housing finance companies ("**HFC**'s) were included under SARFAESI leading to inclusion of most of the newer HFCs. Further, benefits of SARFAESI have been extended to the listed bond market in India. Inclusion of debenture trustees appointed in respect of debt securities as secured creditors allows lenders that don't independently have rights under SARFAESI to benefit from such rights when acting through a debenture trustee. SARFAESI sets forth the time within which the process is expected to be completed by the District Magistrate. All these improvements are expected to be favourable from a recovery perspective for HFCs and are expected to expedite the recovery process in case a borrower turns into an NPA.

The Government set up the Central Registry of Securitization Asset Reconstruction and Security Interest of India ("**CERSAI**") under SARFAESI in April, 2011 to have a central database of all mortgages created by lending institutions. The objective of this registry is to compile and maintain data relating to all transactions secured by mortgages; all banks and HFCs which fall under the range of SARFAESI are required to register with CERSAI and submit the data in respect of all properties mortgaged in its favor. The existence of such a registry would help lenders have better fraud control and mitigate the risk of borrowers raising multiple loans against the same property.

Industry Dynamics for Housing Finance

Demand prospects for the segment have led to a rise in new entrants over the last decade. As of May 20, 2018, 95 HFCs were operational with 10 applications for fresh HFC licenses currently under process by the National Housing Bank ("**NHB**"). For the three years ended March, 2018, there have been 28 new entrants into the markets. Most new entrants in the past two years have focused on the relatively under-penetrated low-ticket affordable housing and self-employed segments. While the large players to continue to dominate the mortgage market in the medium term, smaller HFCs that have been expanding their portfolios over the last few years are expected to increase their share given their focus on relatively untapped segments. The borrower segments that HFCs cater to include the prime salaried, self-employed and low-income segments. Though some of the larger HFCs are competing with banks on the salaried home loan segment, some of the larger and most of the smaller HFCs target special customer segments such as the self-employed or the affordable housing segment to optimize their yields and capitalize on the higher growth potential.

Key reasons for the high growth witnessed in the self-employed segment are discussed below.
Potential of high risk-adjusted returns – Yields in this segment are higher when compared to the salaried segment. Further, a large proportion of properties are self-occupied leading to a low propensity to default.

Underwriting requires skillset – In absence of requisite income proofs, a large portion of the lending under this segment is based on the assessment of the borrower's income using various proxies like imputed margin, average bank balance, assessing borrowers cash flows by visiting their workplace. Therefore, this segment requires a special skillset which is largely being served by HFCs.

Nevertheless, the segment carries more risks which are listed below.
Assessment of income may involve subjectivity -– The assessment of a borrower's income is a subjective process using certain proxies. Therefore, there is a risk of overleveraging, the lender may overestimate the income of the borrower and lend an amount that is higher than warranted. Self-employed borrowers are more vulnerable to economic cycle **–** Cash flows of self-employed borrowers, are more vulnerable to income shocks when compared to salaried borrowers.

Fund Flow to the Housing Finance Segment

External Commercial Borrowings Norms -– RBI's move to ease the external commercial borrowings ("**ECB**") norms is expected to positively impact HFCs as they will now be able to raise ECBs under Track I, i.e. without prior approval provided the exposure is completely hedged. This is expected to enable HFCs to diversify their funding mix and expand the investor base to meet the large funding requirements given the HFCs loan book is expected to grow at a pace of 20 to 22% over the medium term and a significant part of this growth is expected to be funded through fresh borrowings. However, the proportion of funds raised through ECB's will be dependent on competitiveness of the overall landed cost of these ECBs as compared with the domestic borrowing rates.

Relaxation in Prudential Norms for Debt Mutual Funds **–** SEBI, in February, 2017, increased the additional exposure limits provided for HFCs, in debt-oriented mutual fund schemes from 10 to 15%. The current norms require debt mutual fund schemes to cap their investments at 25% of the net assets of the scheme in a single sector except for the financial services sector wherein additional exposure can be taken for the housing finance segment. With this change in regulation, total exposure cap to the financial services sector (including housing finance) stands at 40% (exposure to housing finance segment cannot be more than 25%).

Securitisation and Direct Assignment **–** Sell-down of the retail loan portfolio, either through the securitisation (assignment of pool of loan receivables to a trust and the trust issuing pass through certificates backed by the same) route or through the direct assignment (bilateral assignment of pool of loan receivables from the seller or originator to the buyer) route, is an important and lucrative funding option available to HFCs in India. Other than the attractive funding cost, such transactions may also support the release of capital for the originator. The freedup capital can then be used for achieving a higher managed portfolio growth or be deployed for other productive uses, thereby enhancing the profitability metrics of the entity.

The direct assignment market saw a growth of approximately 4% to an estimated RS 490 billion in Fiscal 2018 from RS 470 billion in Fiscal 2017. The demand for both Priority sector lending ("**PSL**") and non-PSL assets remained strong due to slow corporate credit off-takes in the banking industry in Fiscal 2018. This resulted in a demand from banks (especially PSBs) to acquire retail assets under the direct assignment route to achieve balance sheet growth. Mortgage loans (both housing loans and loans against property) constituted around 72% of the overall direct assignment volumes in Fiscal 2018. In the absence of credit enhancement, banks prefer mortgage loans because of the stable asset quality and low credit risk perceived in this asset class. Originators also prefer the direct assignment route to save on capital cost and negative carry costs associated with credit enhancement in securitisation transactions.

Unlike the direct assignment market, the Indian securitisation market has decreased by approximately 20% to RS 346 billion in Fiscal 2018 from approximately RS 430 billion in Fiscal 2017. In line with the trend seen in overall securitisation volumes, the issuance of mortgage backed securities has also decreased from approximately RS 53 billion in Fiscal 2017 to approximately RS 23 billion in Fiscal 2018. However, the share of non-PSL transactions has witnessed an increase due to the widening investor base with participation from mutual funds, life insurance companies and NBFCs. The increased participation from nonbanking entities is a healthy trend for the securitisation market from a long-term perspective.

Key Concerns

Business requires substantial capital and any disruption in sources of capital could have an adverse effect on the business, results of operations, financial condition and cash flows*:* AFL business and results of operations depend on its ability to raise funds from various external sources on suitable terms and in a timely manner. It has historically secured financing from a variety of sources including term loans and working capital facilities; proceeds from loans assigned and securitized; proceeds from the issuance of non-convertible debentures ('NCDs'); refinancing from the NHB; and subordinated debt borrowings from banks, mutual funds, insurance companies and other domestic, foreign and multilateral financial institutions to meet its capital requirements. Its business thus depends and will continue to depend on its ability to access a variety of sources of capital. Further, changes in economic, regulatory and financial conditions or any lack of liquidity in the market could adversely affect its ability to access funds at competitive rates, which could adversely affect AFL's liquidity and financial condition. Its ability to raise debt to meet its funding requirements is also restricted by the limits prescribed under applicable regulations. Consequently, if AFL is unable to obtain adequate financing in a timely manner and on commercially reasonable terms, its business, results of operations, financial condition and cash flows may be adversely affected.

The risk of non-payment or default by borrowers may adversely affect the business, results of operations, financial condition and cash flows: AFL is primarily focused on serving low and middle income customers in semi-urban and rural areas that has limited access to formal banking credit. Its customers may default in their repayment obligations due to various reasons including insolvency, lack of liquidity, increase in operating costs, business failure or poor agricultural production. In addition, its customers often do not have credit histories supported by tax returns and other documents that would enable it to assess their creditworthiness, and it may not receive updated information regarding any change in the financial condition of its customers or may receive inaccurate or incomplete information as a result of any misrepresentation by AFL's customers or employees. It may therefore be difficult for the company to carry out precise credit risk analyses on all of its customers. Further, as of June 30, 2018, 64.21% of its Gross Loan Assets were from self-employed customers. Selfemployed customers are often considered to be higher credit risk customers due to their increased exposure to fluctuations in cash flows and to adverse economic conditions. To the extent it is not able to successfully manage the risks associated with lending to such self-employed customers, it may become difficult for it to make recoveries on these loans. AFL cannot be assured that its risk management controls will be sufficient to prevent future losses on account of customer defaults, which may adversely affect its business, results of operations, financial condition and cash flows.

AFL are affected by changes in interest rates for its lending and treasury operations, which could cause net interest income to decline and adversely affect its business and results of operations: AFL's results of operations depend substantially on the level of its net interest income, which is the difference between its interest income (mainly comprising interest income on loan portfolio, securitized portfolio, interest income on fixed deposit, intercorporate deposit and commercial paper, profit on redemption of liquid mutual fund units and dividend income from mutual funds) and its finance cost. Any change in interest rates would affect AFL's interest expense on its floating interest-bearing liabilities as well as its net interest income and net interest margins. Any increase in its cost of funds may lead to a reduction in its net interest margin, or require AFL to increase interest rates on loans disbursed to customers in the future to maintain its net interest margin. Interest rates are highly sensitive to many factors beyond AFL's control, including the monetary policies of the RBI, deregulation of the financial sector in India, domestic and international economic and political conditions and other factors, which have historically resulted in changes in interest rates in India. Persistently high inflation in India may discourage the Government from implementing policies that would cause interest rates to decrease. Moreover, if there is an increase in the interest rates it pay on its borrowings that it is unable to pass to its customers, it may find it difficult to compete with its competitors, who may have access to low-cost funds. Further, to the extent AFL's borrowings are linked to market interest rates, it may have to pay interest at a higher rate than lenders that borrow only at fixed interest rates. An increase in general interest rates in the economy could also reduce the overall demand for housing finance and impact its growth. Fluctuations in interest rates may also adversely affect its treasury operations. In a rising interest rate environment, especially if the rise is sudden or sharp, it could be adversely affected by the decline in the market value of its securities portfolio and other fixed income securities. AFL's inability to effectively and efficiently manage interest rate variations and its failure to pass on increased interest rates on its borrowings may cause its net interest income to decline, which would decrease its return on assets and could adversely affect its business and result of operations.

Any downgrade in credit ratings could increase borrowing costs, affect the ability to obtain financing, and adversely affect its business, results of operations, financial condition and cash flows: The cost and availability of capital depends in part on AFL's short-term and long-term credit ratings. Credit ratings reflect the opinions of ratings agencies on its financial strength, operating performance, strategic position and ability to meet its obligations. Any downgrade in its credit ratings could increase borrowing costs and adversely affect its access to capital and debt markets, which could in turn adversely affect its interest margins, its business, results of operations, financial condition and cash flows. In addition, any downgrade in AFL's credit ratings could increase the probability that its lenders impose additional terms and conditions to any financing or refinancing arrangements it enter into in the future and adversely affect itsr business, results of operations, financial condition and cash flows.

AFL may face asset-liability mismatches, which could affect its liquidity and adversely affect the business and results of operations*:* AFL face potential liquidity risks because its assets and liabilities mature over different periods. Assets and liability mismatch, which represents a situation when the financial terms of an institution's assets and liabilities do not match, is a key financial parameter for it. Although it had a positive asset-liability maturity profile as of March 31, 2018, it has had a negative asset liability maturity profile as of March 31, 2014, March 31, 2015 and March 31, 2016. Consequently, it cannot be assured that it will be able to continue to maintain such profile in the future. It meet a significant portion of its financing requirements through long-term borrowings from sources such as term loans from banks and financial institutions and issuance of NCDs. Further, a significant portion of its assets, such as home loans to its customers, have maturities with longer terms than its borrowings. Mismatches between AFL's assets and liabilities are compounded in case of pre-payments of the loans by its customers. Any mismatch in the maturity profile of its assets and liabilities may lead to a liquidity risk and has an adverse effect on its business and results of operations.

AFL's operations are concentrated in four states of western India, particularly Rajasthan and any adverse developments in this region could have an adverse effect on the business, results of operations, financial condition and cash flows*:* As of June 30, 2018, AFL's conducted its operations through 166 branches covering 95 districts in eight states, of which 157 branches were located in western India in the states of Rajasthan, Maharashtra, Madhya Pradesh and Gujarat. As of the same date, 92.50% of its Gross Loan Assets was located in these four states, with Rajasthan accounting for 46.63% of its Gross Loan Assets. The real estate and housing finance markets in these states may perform differently from, and may be subject to market conditions that are different from, the housing finance markets in other regions of India. Consequently, any significant social, political or economic disruption, or natural calamities or civil disruptions in this region, or changes in the policies of the state or local governments of this region or the Government of India, could disrupt AFL business operations, require it to incur significant expenditure and change its business strategies. The occurrence of or its inability to effectively respond to any such event, could have an adverse effect on its business, results of operations, financial condition and cash flows.

Inability to recover the full value of collateral, or amounts outstanding under defaulted loans in a timely manner, or at all, could adversely affect the results of operations: AFL offers home loans and other mortgage loans to customers, where the primary collateral is real estate. The value of the collateral, however, may decline during the term of the loan for a variety of reasons, including due to adverse market conditions prevalent in the real estate sector or an economic downturn leading to a downward movement in real estate prices. As a result, if its customers default, it may receive less money from liquidating collateral than is owed under the relevant financing facility, and, in turn, incur losses, even where it successfully repossess and liquidate the collateral. Moreover, AFL may also not be able to sell the collateral at a price sufficient to cover the amount owed under the financing facility, or at all. It may face additional delay and expense in conducting an auction to sell the collateral and may face significant delay in repossessing collateral, as litigation against defaulting customers, even if governed by an arbitration clause, can be slow and expensive in India. In the event of any inability or delay in the repossession and liquidation of the collateral securing loans in default, it may incur losses, which could adversely affect the results of operations.

The Indian housing finance industry is highly competitive and inability to compete effectively could adversely affect the business and results of operations*:* AFL provides home loans and other mortgage loans to customers residing in the rural and semi-urban markets of India. The housing finance industry is highly competitive. Its primary competitors are banks, other HFCs, small finance banks and NBFCs who has entered these markets as well as private unorganized lenders who typically operates in rural and semi-urban markets. Its ability to compete effectively will depend, in part, on its ability to maintain or increase its margins. AFL's margins are affected in part by its ability to continue to secure low-cost capital, and charge optimum interest rates at which it lend to its customers. Consequently, its ability to maintain or increase margins will be dependent on AFL's ability to pass on increases in the interest rates on its interest-bearing liabilities to its customers. Moreover, any increases in the interest rates on the loans it extend may also result in a decrease in business. It cannot be assured that it will be able to react effectively to these or other market developments or compete effectively with new and existing players in the increasingly competitive housing finance industry. If it is unable to compete effectively, its business and results of operations may be adversely affected.

Inability to effectively manage growth could have an adverse effect on the business, results of operations, financial condition and cash flows: AFL's inability to manage its expansion effectively and execute growth strategy in a timely manner, or within budget estimates or its inability to meet the expectations of its shareholders and other stakeholders could have an adverse effect on its business, results of operations and financial condition. It intend to continue expansion to pursue existing and potential market opportunities. Its ability to execute growth strategies will depend, among other things, on its ability to identify key target markets correctly, diversify and differentiate its product offering and manage pricing to compete effectively, and scale up and grow network efficiently. AFL's ability to expand its product offering will also be limited by restrictions imposed by its risk management framework and applicable laws. It cannot be assured that its existing or future management, operational and financial systems, processes, procedures and controls will be adequate to support future operations, or establish or develop business relationships beneficial to future operations. Failure to manage growth effectively could have an adverse effect on its business and results of operations.

Eexposed to operational and credit risks which may result in NPAs, and may be unable to control or reduce the level of NPAs in portfolio*:* AFL's ability to manage the credit quality of its loans, which it measure in part through NPAs, is a key driver of its results of operations. Its total loan portfolio has grown rapidly in the last few years, and it anticipate that the size of its loan portfolio will continue to grow in the future as it pursue its expansion strategy. Its customer base primarily comprises low and middle income self employed customers in semi-urban and rural areas in India, a majority of who have limited access to formal banking credit. Its customers may face cash flow constraints due to losses incurred by them in their respective businesses or in the economic activities pursued by them. Any such cash flow constraints may affect the ability of its customers to pay interest or repay their loans. If AFL is unable to sufficiently implement credit appraisals, portfolio monitoring and recovery processes, it may lead to a deterioration in the credit quality of its loan portfolio and an increase in the proportion of NPAs in its loan portfolio, thereby adversely affecting its results of operations and financial condition.

Inability to expand business into new regions and markets in India could adversely affect the business, results of operations, financial condition and cash flows*:* As part of AFL growth strategy, it continue to evaluate opportunities to expand its business into new markets in India. It has grown its operations to relatively newer markets such as Delhi, Haryana, Uttar Pradesh and Chhattisgarh. Factors such as competition, customer requirements, regulatory regimes, business practices and customs in these new markets may differ from those in its existing markets, and its experience in its existing markets may not be applicable to these new markets. In addition, as AFL enter new markets and geographical regions, it is likely to compete with not only other banks and financial institutions but also the local unorganized or semi-organized private financiers, who may be more familiar with local regulations, business practices and customs, and may have stronger relationships with target customers. To address these challenges, AFL may have to make significant investments that may not yield desired results or incur costs that it may not be able to recover. Its inability to expand its current operations or the sub-optimal performance of its new branches may adversely affect its business, financial condition, results of operations and cash flows.

Inability to maintain capital adequacy ratio could adversely affect the business: The NHB Directions currently require HFCs to comply with a capital to risk (weighted) assets ratio, or capital adequacy ratio ('CRAR'), consisting of Tier I and Tier II capital. Under these requirements, an HFC's Tier I and Tier II capital may not be less than 12.0% of the aggregate of the HFC's risk-weighted assets and of risk adjusted value of off-balance sheet items, as applicable, with a minimum requirement of Tier I capital of 6.0% on risk weighted assets. Further, the NHB may increase its current CRAR requirements, which may require AFL to raise additional capital. It cannot be assured that it will be able to raise adequate additional capital in the future on terms favorable to it, or at all, which may adversely affect the growth of its business.

AFL may face difficulties and incur additional expenses in operating in rural and semi-urban markets, where infrastructure may be limited*:* AFL primarily serves low and middle income self-employed customers in semi-urban and rural areas in India, where infrastructure may be limited, particularly for transportation, electricity and internet bandwidth. At offices in remote markets, AFL may face difficulties in conducting operations, such as accessing power facilities, transporting people and equipment, and implementing technology measures. It may also face increased costs in conducting its business and operations and implementing security measures. It cannot be assured that such costs will not increase in the future as it expand its network in rural and semi urban markets, which could adversely affect AFL's profitability.

AFL is exposed to risks that may arise if customers opt for balance transfers to other banks or financial institutions: AFL offers its customers the option to choose between a fixed interest rate, a variable interest rate, or a combination of fixed and variable interest rates in order to give them the flexibility to hedge against unexpected interest rate movements. Variable interest rate loans are linked to its reference rate, which as of June 30, 2018, was 14.85%. Based on market conditions, it price its loans at either a discount or a premium to its reference rate, which is determined primarily on the basis of the cost of borrowings, which in turn is determined by a number of factors, many of which are beyond control, including the RBI's monetary policies, the applicable regulations prescribed by the NHB, inflation, competition and the prevailing domestic and international economic conditions. Customers with variable interest rates or teaser rates on their loans are exposed to increased equated monthly instalments ('EMIs') when the loan's interest rate adjusts upward from an initial fixed rate, as applicable, to the rate computed in accordance with the applicable index and margin. Such customers typically seek to refinance their loans through balance transfer to other banks and financial institutions, to avoid increased EMIs that may result from an upwards adjustment of the loan's interest rate. While refinancing of loans by other lenders could in certain circumstances be beneficial for its customers, it results in a loss of interest income expected from such loans over the course of their tenure. As competition in the housing finance sector intensifies, certain of its customers with variable interest rate loans may not be able to find balance transfer options at comparablylower interest rates or other financing alternatives. As a result, they may be exposed to the risks associated with increases in EMIs, which may lead to increased delinquency or default rates. Increased delinquency rates may also result in deterioration in credit quality of its loan portfolio, which could have an adverse effect on the business, results of operations and financial condition.

Any deterioration in the performance of any pool of receivables securitized to banks and other institutions may adversely impact the financial performance: AFL may, in the ordinary course of business, securitize a portion of its receivables from its loan portfolio to banks and other financial institutions. Such securitization transactions are undertaken by the company on the basis of its internal estimates of funding requirements, and may vary from time to time. Any change in RBI or other government regulations in relation to assignments/securitizations by HFCs could have an adverse impact on its assignment/securitization program. In the event the bank or financial institution does not realize the receivables due under loans that has been securitized, the relevant bank or institution can enforce the underlying credit enhancements provided by the Company. Should the assignee banks or any other financial institutions seek to enforce the underlying credit enhancements such as bank guarantees and fixed deposits, which are provided up to a specified percentage of the underlying loans, it could have an adverse effect on its financial condition and results of operations.

AFL may not be able to identify, monitor and manage risks and effectively implement risk management policies*:* The effectiveness of AFL's risk management is limited by the quality and timeliness of available data. It has devoted resources to develop its risk management policies and procedures and aim to continue to do so in the future. It has policies and procedures in place to measure, manage and control the various risks to which it is exposed, which include its asset-liability management policy, credit policy, investment policy, collections policy and KYC and Anti-Money Laundering ('AML') policy and which articulate its approach to the identification, measurement, monitoring, controlling and mitigation of various risks associated with its operations in addition to providing certain important guidelines for strict adherence. Further, a portion of AFL's risk management strategies may not be effective in a difficult or less liquid market environment, where other market participants may be attempting to use the same or similar strategies to deal with the difficult market conditions. In such circumstances, it may be difficult for AFL to reduce its risk positions due to the activity of such other market participants. Its investment and interest rate risk are dependent upon its ability to properly identify, and mark-to-market changes in the value of financial instruments caused by changes in market prices or rates. Its earnings are dependent upon the effectiveness of its management of changes in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its allowances for loan losses. To the extent AFL's assessments, assumptions or estimates prove inaccurate or not predictive of actual results, it could suffer higher than anticipated losses. If it fails to effectively implement its risk management policies, it could have an adverse effect on its business, financial condition, cash flows and results of operations.

The Indian housing finance industry is extensively regulated and any changes in laws and regulations applicable to HFCs could have an adverse effect on the business: AFL is subject to the corporate, taxation and other laws in effect in India and the states and cities in which it operates, which require continued monitoring and compliance. These regulations, apart from regulating the manner in which a company carries out its business and internal operations, prescribe various periodical compliances and filings, including but not limited to filing of forms and declarations with the relevant registrar of companies and the NHB. Pursuant to the NHB Act and various regulations, circulars and guidelines issued by the NHB, HFCs are currently required to comply with, among others, limits on borrowings, investments, interest rates and tenure on public deposits, prudential norms for income recognition, asset classification and provisioning for standard and non-performing assets, norms for creation of special reserves and provision for DTL as well as minimum capital adequacy and liquidity requirements. The laws and regulations governing the housing finance industry in India have become increasingly complex and cover a wide variety of issues. Compliance with many of the regulations applicable to AFL's operations in India, including any restrictions on investments and other activities currently being carried out by the company involves a number of risks, particularly in markets where applicable regulations may be subject to varying interpretations. If the interpretation of the regulators and authorities varies from its interpretation, it may be subject to penalties and its business could be adversely affected. Additionally, AFL is required to make several filings with the NHB, the RoC and other relevant authorities pursuant to the provisions of NHB regulations, the Companies Act and other regulations. If it fails to comply with these requirements, or a regulator claims it has not complied with these requirements, it may be subject to penalties and compounding proceedings.

Require certain statutory and regulatory approvals for conducting business: AFL's operations are subject to extensive government regulation and it is required to obtain and maintain a number of statutory and regulatory permits and approvals under central, state and local government rules in India, generally for carrying out its business. While it has obtained a number of approvals required for its operations, certain approvals for which AFL has submitted applications are currently pending. It is also in the process of applying for the renewal of certain approvals that has expired. In addition, it may apply for more approvals, including the renewal of approvals which may expire from time to time, and approvals in the ordinary course of business. If there is any failure by AFL to comply with the applicable regulations or if the regulations governing its business are amended, it may incur increased costs, be subject to penalties, have its approvals and permits revoked or suffer a disruption in its operations, any of which could adversely affect AFL's business.

Depend on the accuracy and completeness of information provided by the customers*:* While deciding whether to extend credit to customers, AFL rely, to a significant extent, on the information furnished to it by the customers for certain key elements of the credit assessment process, including their financial transactions and credit history. It follow the Know Your Customer guidelines prescribed by the NHB for potential customers, verify their place of business or employment and residence, as applicable, and verify details with the NHB's caution list. It may also rely on certain representations from customers as to the accuracy and completeness of that information. AFL may receive inaccurate or incomplete information as a result of negligence or fraudulent misrepresentation. Its risk management measures may not be adequate to prevent or deter such activities in all cases, which may adversely affect its business, results of operations and financial condition. Further, a significant number of its customers are first time buyers of financial products and often may not have credit histories supported by tax returns and other documents that would enable it to accurately assess their creditworthiness. Although as part of AFL's credit policy, it is equired to conduct credit checks of all itsr customers, including with credit bureaus, conduct site-visits and personal discussions, it cannot be assured that such credit information will be accurate or comprehensive. Difficulties in assessing credit risks associated with its dayto-day lending operations may lead to an increase in the level of its non-performing assets, which could adversely affect its business, financial condition and results of operations.

Significant changes by the Government or the RBI or the NHB in their policy initiatives facilitating the provision of housing and housing finance or any change in the tax incentives that the Government currently provides to HFCs may have an adverse effect on the business, results of operations and financial condition: The Government of India provides certain incentives to encourage providing credit to the housing industry and has implemented policies, particularly in relation to affordable housing, that are aimed at providing lowcost, long-term credit to the low and middle income segments in rural and urban parts of India. The NHB provides refinance for certain qualifying loans at reduced rates to certain qualifying HFCs through its schemes. In addition, the RBI provides certain incentives to the housing finance industry by extending priority sector status to housing loans. Any significant change by the Government in its various policy initiatives facilitating provision of housing and housing finance or any change in the tax incentives that it currently provides to HFCs may have an adverse effect on AFL's business, results of operations and financial condition.

Fluctuations in the market values of investments could adversely affect the result of operations and financial condition: As part of AFL's treasury management, it has formulated a board-approved investment policy in accordance with the NHB Directions. Its investment policy prescribes permissible investment assets such as bonds of public sector banks and corporates, corporate deposits, fixed deposits of scheduled commercial banks, certificates of deposits, commercial papers with high credit ratings, units of debt mutual funds, government securities including treasury bills and investments in pass through certificates. The value of these investments depends on several factors beyond its control, including the domestic and international economic and political scenario, inflationary expectations and the RBI's monetary policies. Any decline in the value of these investments may have an adverse effect on AFL's results of operations and financial condition.

The growth rate of India's housing finance industry may not be sustainable: It is excepted that the housing finance industry in India to continue to grow as a result of anticipated growth in India's economy, increases in household income and demographic changes. In addition, the Government of India is pursuing various social welfare schemes and initiatives to create an enabling and supportive environment to both enhance the flow of credit to the housing sector and increase home ownership in India. Various Central Government policies and initiatives such as 'Smart Cities' and the 'Pradhan Mantri Awas Yojana' or the 'Housing for all by 2022' scheme have reinforced the primacy of the housing sector and the need to provide housing to all and is expected to promote affordable housing through partnerships with private sector entities. However, it is not clear how certain trends and events, such as the pace of India's economic growth, the development of domestic capital markets and the on-going reform will affect India's housing finance industry. In addition, there can be no assurance that the Government policies and initiatives for the housing finance industry will continue at the same or expected pace in the future. Consequently, there can be no assurance that the growth and development of India's housing finance industry will be sustainable.

The following table sets forth certain key financial and operational information, as of and for the periods indicated: **Rs in million**

Metric	Three months ended June 30, 2018	FY18	FY17	FY16
Gross Loan Assets	43,590.87	40,730.20	26,935.22	16,798.65
Growth of Gross Loan Assets (%)	-	51.22	60.34	99.3
Gross Advances	34,715.16	31,723.64	21,328.15	14,545.01
Disbursements	5,468.95	20,511.56	13,916.02	10,504.30
Disbursements Growth (%)	-	47.4	32.48	95.65
Total Revenue	1,438.70	4,572.45	3,054.92	1,908.99
Net Interest Income	786.06	2,270.72	1,375.51	781.65
Profit After Tax	289.96	929.33	571.37	327.8
Growth of Profit After Tax (as restated) from prior year (%)	-	62.65	74.3	71.79
Net Worth	11,776.91	10,984.71	5,663.26	2,038.18
Gross NPA	172.39	106.91	169.21	80.42
Gross NPA to Gross Advances (%)	0.5	0.34	0.79	0.55
Net NPA	133.14	82.51	128.64	61.71
Net NPA to Net Advances %	0.38	0.26	0.6	0.42
Average Yield on Gross Loan Assets (%)	13.86	13.99	14.72	15.12

Average cost of borrowings %	8.57	8.65	9.62	10.53
Net Interest Margin %	2.03	7.25	6.61	6.1
Operating Expenses to Average Total Assets (%)	1.05	3.97	3.24	3.16
Operating Expenses to Net Total Income Ratio (%)	46.71	46.43	41.4	43.06
CRAR (%)	60.53	61.55	46.85	27.46
Number of Branches	166	165	94	44

Profit & Loss

Rs in million

Particulars	Q1FY19*	FY18*	FY17	FY16
Revenue from operations	1438.7	4563.7	3051.3	1908.8
Other Income	0.2	9.1	3.6	0.2
Total Income	1438.9	4572.7	3054.9	1909.0
Total Expenditure	418.2	1209.0	723.4	427.8
Employee benefits expense	259.3	733.6	430.5	294.3
Other expenses	134.8	456.3	215.2	97.8
Provisions and write offs	24.0	19.1	77.7	35.8
PBIDT	1020.7	3363.8	2331.5	1481.2
Interest	559.0	1890.5	1428.2	968.8
PBDT	461.7	1473.2	903.3	512.4
Depreciation	16.8	56.3	27.7	12.8
PBT	444.9	1417.0	875.6	499.5
Tax (incl. DT & FBT)	154.8	488.2	304.2	171.7
Tax	137.5	432.3	265.4	159.3
Deferred Tax	17.3	55.9	38.8	12.4
PAT	290.1	928.8	571.4	327.8
EPS (Rs.)	4.10	13.4	9.8	8.5
Equity	707.5	691.7	581.6	383.8
Face Value	10.0	10.0	10.0	10.0
OPM (%)	70.9	73.5	76.3	77.6
PATM (%)	20.2	20.4	18.7	17.2

*= Consolidated nos

Balance Sheet:

Rs in million

Particulars	As at June 30, 2018*	FY18*	FY17	FY16
Equity & Liabilities				
Shareholders Funds	**11776.4**	**10981.7**	**5663.3**	**2038.2**
Equity Share Capital	707.5	691.7	581.6	383.8
Reserves and surplus	11068.9	10290.0	5081.6	1654.4
Money received against share warrants	0.0	2.4	0.0	0.0
Non-Current Liabilities	**23782.4**	**22593.0**	**15296.9**	**12174.4**
Long-term borrowings	23475.7	22324.8	15096.9	11963.7
Other long-term liabilities	2.8	2.6	1.2	104.0
Long-term provisions	169.0	148.1	137.2	83.9
Deferred Tax Liabilities (Net)	134.9	117.6	61.7	22.9
Current Liabilities	**4542.3**	**4596.8**	**3546.5**	**2895.2**
Short-term borrowings	372.1	325.1	790.4	1127.5
Other current liabilities	4120.6	4260.2	2749.4	1764.3
Short-term provisions	49.6	11.6	6.8	3.4
Total Equity & Liabilities	**40101.1**	**38174.0**	**24506.7**	**17107.8**
Assets				
Non-Current Assets	**33830.6**	**30972.1**	**20714.0**	**14078.0**
Property, Plant and Equipment	165.39	154.5	86.9	56.2
Intangible assets	30.6	29.7	14.8	0.2

Intangible Assets Under Development	0.6	0.3	1.4	0.0
Non-current investments	89.3	92.9	7.5	0.0
Receivables under financing activities	33528.1	30679.6	20594.6	14018.0
Others	16.7	15.0	8.8	3.6
Current assets	**6270.5**	**7201.9**	**3792.7**	**3029.8**
Current investment	2.7	2.7	0.3	0.0
Cash and bank balances	4458.7	5694.6	2757.7	2349.0
Receivables under financing activities	1187.1	1044.0	733.6	527.1
Other Financial Assets	83.0	29.5	10.0	14.5
Other Current Assets	539.1	431.1	291.2	139.2
Total Assets	**40101.1**	**38174.0**	**24506.7**	**17107.8**

***= Consolidated nos**

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