

India Ratings Assigns AVIOM India Housing Finance's Bank Loans and NCDs 'IND BBB+' / Positive

Jul 22, 2024 | Housing Finance Company

India Ratings and Research (Ind-Ra) has rated AVIOM India Housing Finance Pvt Ltd's (AVIOM) debt instruments as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Non-convertible debentures*	-	-	-	INR650	IND BBB+/Positive	Assigned
Bank loans	-	-	-	INR1,000	IND BBB+/Positive	Assigned

*Yet to be issued

Analytical Approach

Ind-Ra has taken a standalone view of AVIOM to arrive at the ratings.

Detailed Rationale of the Rating Action

The rating reflects the healthy scale-up of AVIOM's asset under management (AUM) over FY21-FY24, supported by adequate capitalisation with participation from promoters and institutional investors. The rating also factors in AVIOM's demonstrated ability to diversify its lenders base. The Positive Outlook reflects the company's plan to raise equity of INR2,000 million to 2,500 million by end-September 2024.

The agency, however, believes the loan portfolio has witnessed limited seasoning, which is critical for the asset quality to reach a steady state, given the volatile nature of the cash flows of AVIOM's end-customers. The rating is also constrained by the elevated operating cost which pressure the profitability, and hence would require timely capital infusions for its above-average asset growth compared to that of internal accruals.

List of Key Rating Drivers

Strengths

- Adequate capitalisation with participation from promoters and institutional investors
- Healthy scale-up of AVIOM's AUM
- Experienced promoter and management team
- Diversified lender base

Weaknesses

- Asset quality control needs to be established with complete seasoning
- Elevated operating cost pressures profitability

Detailed Description of Key Rating Drivers

Adequate Capitalisation with Participation from Promoters and Institutional Investors: In FY24, AVIOM raised INR3.31 billion through equity and compulsory convertible preference shares, with INR0.75 billion infused in FY24. Post the latest equity infusion, its equity capital base increased to INR4,005 million in FY24 (FY23: INR2,856 million; FY22: INR1,518 million; FY21: INR839 million). AVIOM has demonstrated its ability to raise capital in the past, which saw participation from institutional investors, impact investors such as Gojo and Company Inc, SABRE Partners AIF Trust, Capital 4Development Asia Fund Cooperative UA, Teachers Insurance and Annuity Association of America (TIAA).

As on 31 March 2024, on a fully diluted basis, the promoter Kajal Iimi and her family members held 31.4% stake in the company, with the other key stakeholders being Nuveen (35.06%), Gojo and Company Inc (19.84%), SABRE Partners AIF Trust (9.88%), Capital 4Development Asia Fund Cooperative UA (3.78%).

AVIOM's Tier 1 base of 29.15% as of March 2024 (FY23: 40.11%; FY22: 30.72%) is sufficient for its medium-term growth objectives, with leverage (debt/tangible equity) of 3.3x (3.2x; 4.5x). However, this is not a steady state leverage and would increase in line with the growth in the scale of operations. As per Ind-Ra's stress test, the capital buffers can adequately absorb asset quality pressure in the near-to-medium term. However, the company plans to keep its leverage ratio below 5x on a sustainable basis. AVIOM is planning to raise equity of INR2,000 million to 2,500 million by September 2024 from new and existing investors. The agency believes medium-term capital infusions will be imperative for AVIOM to scale up its AUM and maintain its growth trajectory.

Healthy Scale-up with Reduction in Geographic Concentration: AVIOM's customers are matured microfinance customers (having completed two or more loan cycles in most cases with other microfinance institutions) having collateral in the form of self-occupied residential properties. The company targets the niche segment which are not serviced by other affordable housing finance companies, due to the granular ticket size of INR0.25 million (average) and longer tenure of seven years (average). As of FY24, 78% of the company's AUM comprised home loans for construction, purchase, resale and renovation with the balance (22%) comprising loan against property (LAP). Due to the lower penetration in this segment with lower base, the company had grown at a healthy CAGR of 55.6% during FY21 to FY24 with AUM reaching INR17.52 billion. During FY20-FY24, the company reduced its concentration risk by opening 168 new branches with total 268 branches at end-March 2024 and expanded its state presence to 13 states from three. Its concentration in the top two states – Madhya Pradesh and Uttar Pradesh - has remained same at around 50% in FY24, largely due to going deeper in the current geography to grow its portfolio. The top five districts concentration however reduced to 11.2% in FY24 from 17.21% in FY23.

Experienced Promoter and Management Team; Reasonable Governance Practices: AVIOM's promoter-cum- managing director has over two decades of experience in financial institutions, with management team members having experience of over 15 years in their functional domains and have remained with the company over the past five to six years. As of FY24, AVIOM's board of directors consisted of seven members, comprising two independent directors with varied industry experience, three investor nominee directors, one non-executive director and one founder member. Most of the aforementioned investors have board representation, driving the business at the strategy level and providing support, as and when required. The board is well represented with two independent directors as well.

Diversified Lender Base: AVIOM has mobilised funds from around 52 financiers, including non-banking finance companies /housing finance companies (41% of borrowings), private/public sector banks and small finance banks (22%), development financial institutions/impact financiers (36%) [and National Housing Bank](#) (1%; debt rated at '[IND AAA/Stable](#)'). Considering its scale of operations, the number of lending relationships is fairly diversified. The company has relationships with large private and public sector banks, and plans to increase them for competitive pricing and larger tenure. The company also plans to increase its exposure to NHB which will further reduce the borrowing cost. AVIOM's weighted average incremental cost of borrowings improved to 11.9% in FY24 from 12.5% in FY23, even in a rising interest rate environment, which will further improve given the addition of banks and NHB, and as per Ind-Ra this remains key monitorable. During FY24, the company has also increased direct assignment volumes, which serves as an additional funding source.

Asset Quality Control Needs to be Established with Complete Seasoning: AVIOM started its business in August 2016, and tenure of loans is typically around seven years; hence, a complete cycle is yet to be witnessed for a large part of the book, as around 60% of AVIOM's portfolio originated during FY24. The borrower base comprises largely women as the first applicant having existing microfinance loans from other institutions and the borrower segment is vulnerable to cash flow fluctuations and has limited access to liquidity during emergency. The company mitigates this risk by extending secured loans and maintaining a conservative loan-to-value (maximum 40%), which limits the ultimate losses in case of defaults. The mitigants in-built into the business practices include sourcing of loans through a combination of in-house loan officers with local experience and Avium Shakti model wherein the existing JLG group women leaders source loans for a fixed incentive per login/disbursement. AVIOM has a complete in-house collection team with maximum cap of 100 cases per collection officer.

The on-book gross non-performing assets (NPA) increased to 0.96% at FYE24 (FYE23: 0.52%; FY22: 0.34%), while net NPA increased to 0.53% (0.27%; 0.20%). On a two-year lagged basis, the gross NPA ratio have been higher at 2.1% in FY24 (FY23: 1.1%). Given the low seasoning of the portfolio, Ind-Ra opines that steady state asset quality performance and asset quality trajectory of AVIOM will be a key monitorable.

Elevated Operating Cost Pressures Profitability: The company's business model relies 100% on in-house sourcing and collection with low ticket size, hence, requires on ground effort which leads to a high operating cost. The reported profit after tax (PAT) rose to INR458 million in FY24 (return on average asset of 2.9%) from INR161 million in FY23 (1.5%) due to the upfront booking of gain realised on the direct assignment portfolio (sale of loans). Excluding the same, the return on average remained flat at 1.5% for FY24.

With respect to the net interest margin, AVIOM has been able to risk-price its loans, given the vulnerable borrower base, which is reflected in healthy net interest margin of 10.5% in FY24 (FY23: 10.5%; FY22: 8.8%). However, the impact of healthy net interest margin is offset by an elevated operating expense to AUM ratio which increased to 13.5% in FY24 (FY23: 11.7%; FY22: 10.8%), primarily due to the expansion in the branch network to 268 in FY24 from 105 in FY22. However, with a branch breaking even in eight to 10 months by achieving AUM of INR30 million to 35 million and additional expansion expected in existing states, Ind-Ra expects the operating efficiency to come into play as the business scales up. Moreover, the low credit cost due to limited seasoning is a key monitorable.

Liquidity

Adequate: The on-balance sheet liquidity (liquid investments, and unencumbered cash and investments) and unutilised line stood at INR1,499.3 million at end-May 2024, which is adequate to cover the debt outflows (principal and interest) for around two months (INR1,518.3 million), without considering inflows. According to the company policy, it plans to maintain liquidity to cover at least two months' operating expenses and one month disbursement after considering inflows. AVIOM had a negative cumulative mismatch in the one-year time frame, as per the structural liquidity statement at end-March 2024, due to longer tenure of the assets which is seven – eight years as against three-four years of debt repayment. AVIOM is in a process to increase the borrowing tenure to further improve the negative mismatch.

Rating Sensitivities

Positive: The following developments collectively could lead to a positive rating action:

- significant growth in the franchise, with improving trend in profitability
- control on asset quality with portfolio seasoning
- diversification in the funding profile and maintaining of adequate liquidity

Negative: The following developments, individually or collectively, could lead to a negative rating action:

- delay in raising equity in line with company's plan
- leverage (debt / tangible equity) exceeding 5x on a sustained basis
- gross stage-3 assets ratio (including write-offs) exceeding 4% on a sustained basis

ESG Issues

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

About the Company

Aviom is a Delhi-based housing finance company, which began its operations in August 2016. The company had a wide network of 268 branches as on 31 March 2024. AUM stood at INR17.52 billion in FY24. AVIOM provides loans for sanitation, home extension, home improvement, and construction and LAP to low-income families from the informal sector with focus on women.

AVIOM is led by Kajal Ilmi, who has experience of over two decades in real estate and housing. As on 31 March 2024, Kajal Ilmi and her family members held 31.4% stake in the company on a fully diluted basis. Gojo and Company Inc, SABRE Partners AIF Trust, Capital 4 Development Asia Fund Cooperative UA and TIAA are the other key shareholders.

Key Financials Indicators

Particulars	FY24	FY23
Total assets (INR million)	18,721	12,708
Total equity (INR million)	4,026	2,875
Net profit (INR million)	458.8	160.6
Return on average assets (%)	2.9	1.5
Leverage (x)	3.3	3.2
Source: Company, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limit (million)	Rating
Non-convertible debentures	Long-term	INR650	IND BBB+/Positive
Bank loans	Long-term	INR1,000	IND BBB+/Positive

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loans	Low
Non-convertible debentures	Low

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

APPLICABLE CRITERIA

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

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