

Rating Rationale

May 18, 2023 | Mumbai

Aviom India Housing Finance Private Limited

Rating upgraded to 'CRISIL BBB+/Stable'; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.125 Crore (Enhanced from Rs.25 Crore)
Long Term Rating	CRISIL BBB+/Stable (Upgraded from 'CRISIL BBB/Stable')

Rs.62 Crore Non Convertible Debentures	CRISIL BBB+/Stable (Upgraded from 'CRISIL BBB/Stable')
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facilities and non-convertible debentures of Aviom India Housing Finance Private Limited (Aviom) to '**CRISIL BBB+/Stable**' from 'CRISIL BBB/Stable'.

The upgrade is driven by the company's demonstrated ability to scale up assets under management (AUM) backed by steady fund raising, and to leverage its balance sheet while maintaining profitability. These strengths are partially offset by limited seasoning of the portfolio due to modest track record of operations.

Aviom grew its AUM to Rs 1,035 crore as on March 31, 2023, from Rs 725 crore a year earlier and Rs 461 crore as on March 31, 2021. The growth has been supported both by capital and external debt from development financial institutions, banks and non-banking financial companies (NBFCs). The company has raised Rs 256 crore from its promoter and impact investors till date with the latest infusion of ~Rs 100 crore by Nuveen Alternatives Advisors LLC (Nuveen) and ~Rs 22 crore by the promoter in fiscal 2023. Borrowings amounting to Rs 586 crore were raised in fiscal 2023, against Rs 421 crore in fiscal 2022.

Aviom extends home loans (71% of AUM as on March 31, 2023) and loans against property (LAP) (29%) to low-income women borrowers in Tier II and Tier III towns. The company has been profitable since fiscal 2022 and generated profit after tax (PAT) of ~Rs 16 crore for fiscal 2023^[1]. The balance sheet is moderately leveraged as indicated by weighted average cost of funds of 12.6% and gearing of 3.2 times as on March 31, 2023. Ability to mobilise resources at competitive rates will support net interest margin.

As the company's loan book seasons, asset quality will be key monitorable.

^[1] Provisional estimates

Analytical Approach

CRISIL Ratings has analysed the standalone business and financial risk profiles of Aviom.

Key Rating Drivers & Detailed Description

Strengths:

Capitalisation supported by steady capital raised since inception:

Network increased to Rs 289 crore as on March 31, 2023, from Rs 153 crore as on March 31, 2022. The network is supported by steady capital raised since inception from impact investors such as Gojo and Company Inc, SABRE Partners AIF Trust, Capital 4 Development Asia Fund Cooperative UA, Teachers Insurance and Annuity Association of America (TIAA) managed by Nuveen. Aviom has raised Rs 256 crore through equity and compulsory convertible preference shares so far, with Rs 122 crore infused in fiscal 2023.

In fiscal 2023, the company signed a definitive term sheet with TIAA, an American investment manager, for a commitment of Rs 250 crore which is a combination of primary (Rs 175 crore) and secondary (Rs 75 crore) capital infusion. Of this, Rs 100 crore was infused in fiscal 2023 and Rs 75 crore primary and Rs 75 crore secondary infusion is subject to regulatory approval which is expected by the first half of fiscal 2024.

As on March 31, 2023, on a fully diluted basis, the promoter Ms Kajal Ilmi and her family members held 33.09% stake in Aviom, with the other key stakeholders being Gojo and Company Inc (33.39%), Nuveen (14.46%), SABRE Partners AIF

Trust (10.95%), Capital 4 Development Asia Fund Cooperative UA (6.35%). The balance is held by the friends and family members of the promoter.

The recent capital raise helped moderate leverage to 3.2 times as on March 31, 2023 (provisional) from 4.4 times as on March 31, 2022. On a steady state basis, the leverage should remain below 5 times over the medium term. CRISIL Ratings believes Aviom has adequate capitalisation to support its medium-term growth strategy.

Access to diverse lenders across financial institutions:

Aviom has mobilised funds from ~55 financiers, including NBFCs/housing finance companies (HFCs) (43% of borrowings), private/public sector banks and small finance banks (23%), development financial institutions/impact financiers (31%) and NHB (2%) and others. 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 the management aims to increase relationships with banks for competitive pricing and larger tenure. The company is also exploring direct assignment avenues, which could serve as an additional funding source.

Weaknesses:

Vulnerability of the borrower segment; asset quality yet to reach steady state

Aviom reported gross non-performing assets (GNPAs) of 0.49% as on March 31, 2023 (0.35% as on March 31, 2022). On a two-year lagged basis, GNPAs were at 1.07% as on March 31, 2023 (1.01% a year earlier), and the company has not offered any restructuring to its borrowers.

A significant portion of the loan book (70% as on March 31, 2023) has been originated 2021 onwards. Therefore, asset quality will need to be monitored as the portfolio seasons. Ability to successfully manage collections and recovery over a sustained period in this borrower segment will need to be seen.

Aviom mainly provides secured loans to microfinance borrowers, which is a relatively new borrower segment for an HFC. The borrowers are self-employed or salaried individuals in informal sectors, with incomes ranging from Rs 15,000-45,000. They are vulnerable to cash flow fluctuations and have limited access to liquidity during any exigency.

Aviom has comprehensive policies to safeguard its portfolio and has capped key credit metrics such as LTV (loan-to-value), debt burden ratio, and loan ticket size. CRISIL Ratings expects the steady state asset quality to improve as the portfolio seasons and this will remain a key monitorable.

Nascent business operations; earnings to stabilise with operating leverage

Aviom started operations in August 2016 and has grown its AUM to Rs 1,035 crore as on March 31, 2023, from Rs 725 crore as on March 31, 2022 (Rs 461 crore as on March 31, 2021, and Rs 242 crore as on March 31, 2020). The tenure of loans is typically around seven years, and a complete cycle is yet to be witnessed for a large part of the book. Therefore, asset quality is yet to reach steady-state level and thus, credit cost may inch up.

Aviom has been able to risk-price its loans, given the vulnerable borrower base, which is reflected in healthy net interest margin of 8.2% and 7.1% for fiscals 2023 and 2022, respectively. Operating expense to average asset ratio rose to 9.3% in fiscal 2023 from 8.7% in fiscal 2022 due to expansion in the number of branches towards the end of fiscal 2023. However, with a branch breaking even in 8-10 months by achieving AUM of Rs 3.0-3.5 crore, operating efficiency will come into play as business scales up. Return on average assets was 1.4% for fiscal 2023 against 1.7% for fiscal 2022. Ability to improve earnings while absorbing higher-steady state credit costs will need to be demonstrated over time.

Liquidity: Adequate

As on March 31, 2023, the asset liability maturity profile had positive cumulative mismatches in up to 5-month buckets. The company had liquidity of Rs 143 crore in the form of cash and bank balances as on that date, sufficient to cover maturing debt obligations for more than five months. As an internal policy, the company maintains on-balance sheet liquidity to cover one month of debt, operating expenses and disbursements.

Outlook: Stable

Aviom will maintain adequate capitalisation over the medium term with steady growth in the AUM. Ability to maintain asset quality and improve earnings as the loan book seasons will be a key monitorable

Rating Sensitivity factors

Upward factors

- Substantial scale up in franchise with stable asset quality on a steady state basis
- Comfortable profitability with return on assets above 2% on a sustained basis

Downward factors

- Steady state leverage rising beyond 6 times
- Significant and sustained weakening of asset quality

About the Company

Incorporated in February 2016, Aviom is a Delhi-based HFC, which provides home loans and LAP. It began operations in August 2016 on receipt of its HFC license. The company had a wide network of 117 branches as on March 31, 2023.

Aviom is led by Ms Kajal Ilmi, who has experience of over two decades in real estate and housing. As on March 31, 2023, Ms Kajal Ilmi and her family members held 33.39% 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.

AUM grew to Rs 1,035 crore as on March 31, 2023, from Rs 725 crore as on March 31, 2022. The company reported PAT of ~Rs 16 crore (provisional) and total income (net of interest expense) of Rs 125.7 crore for fiscal 2023, against Rs 12.17 crore and Rs 85.5 crore, respectively, for fiscal 2022.

Key Financial Indicators

As on/for the period ending	Unit	Mar 2023^ (FY23)	Mar 2022 (FY22)	Mar 2021 (FY21)
		IND AS	IND AS	IND AS
Total assets	Rs crore	1,270.30	921.7	525.7
Total network	Rs crore	288.8	153.5	84.2
Reported gearing	Times	3.2	4.4	4.9
PAT	Rs crore	16	12.2	-0.6
Return on assets	%	1.4	1.7	-0.2

^Provisional

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
INE0E2307146	Non-convertible debentures	29-Jul-22	12.2902%	29-Jan-26	31	Simple	CRISIL BBB+/Stable
INE0E2307138	Non-convertible debentures	21-Jul-22	12.2428%	21-Jul-27	31	Simple	CRISIL BBB+/Stable
NA	Term loan	14-Jul-22	9.90%	30-Jul-29	25	NA	CRISIL BBB+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	100	NA	CRISIL BBB+/Stable

Annexure - Rating History for last 3 Years

Current				2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	125.0	CRISIL BBB+/Stable		--	27-07-22	CRISIL BBB/Stable		--		--	--
			--		--	23-06-22	CRISIL BBB/Stable		--		--	--
			--		--	14-06-22	CRISIL BBB/Stable		--		--	--
Non Convertible Debentures	LT	62.0	CRISIL BBB+/Stable		--	27-07-22	CRISIL BBB/Stable		--		--	--
			--		--	23-06-22	CRISIL BBB/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	100	Not Applicable	CRISIL BBB+/Stable
Term Loan	25	State Bank of India	CRISIL BBB+/Stable

This Annexure has been updated on 18-May-2023 in line with the lender-wise facility details as on 10-Jun-2022 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition

Rating Criteria for Finance Companies

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