December 29, 2023

Aviom India Housing Finance Pvt Ltd: Rating reaffirmed; assigned to NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	175	175	[ICRA]BBB+ (Stable); reaffirmed
Non-convertible debenture	-	50	[ICRA]BBB+ (Stable); assigned
Total	**175**	**225**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Aviom India Housing Finance Pvt Ltd's (AIHFPL) demonstrated ability to increase its scale of operations, with assets under management (AUM) of Rs. 1,274.9 crore as on September 30, 2023 (Rs. 1,034.9 crore as on March 31, 2023), while keeping the asset quality indicators under control. It also factors in AIHFPL's adequate capitalisation profile with a net worth of Rs. 305.6 crore and a managed gearing of 4.0x as on September 30, 2023, supported by the regular capital raise from existing and new investors. Nevertheless, AIHFPL would need to raise capital regularly to maintain a prudent capitalisation profile, given its high growth plans and modest internal capital generation. Its loan book is characterised by granular retail loans with relatively small ticket sizes (average ticket size of Rs. 2.5-3 lakh). Also, given the low credit penetration in the affordable housing finance segment, the growth potential is good, supporting the company's growth outlook.

The rating is constrained by the modest profitability indicators and the relatively high portfolio vulnerability arising out of the marginal target borrower profile. The target borrower segment comprises low-and-middle-income individuals/families with undocumented and informal sources of income and limited buffer to absorb economic shocks. While the company has been able to maintain control over the asset quality indicators so far, with gross stage 3 assets of 0.7% as on September 30, 2023, the loan book is relatively less seasoned. Hence, AIHFPL's ability to maintain healthy asset quality indicators with the growing scale on a sustained basis will be a key monitorable.

As for the profitability, the reported return on managed assets (RoMA) increased significantly in H1 FY2024 (2.6% from 1.4% in FY2023), though this was largely on account of the gain from the derecognition of the direct assignment (DA) book. Adjusting for this, the profitability indicators remain modest on account of elevated operating expenses as the company is still in expansion mode. ICRA expects the profitability indicators to improve over the medium term on the back of the increased scale of operations, provided slippages remain under control.

ICRA also favourably notes that AIHFPL's funding tie-ups have increased over the last year and the borrowing mix is diversified in terms of the number of lenders. The company would, nevertheless, need to continuously expand the relationships going forward as well, given its growth plans. Overall, AIHFPL's ability to improve its scale of operations, while maintaining a prudent capitalisation profile and good credit underwriting standards, would be critical.

Key rating drivers and their description

Credit strengths

Granular retail portfolio and good growth opportunity in affordable segment – AIHFPL operates in the space between traditional housing finance and microfinance, reflected by the relatively small ticket size of Rs. 0.5-5 lakh (average ticket size in the range of Rs. 2.5-3 lakh). This has resulted in a granular loan book with the number of borrowers at 62,728 against the AUM of Rs. 1,274.9 crore as on September 30, 2023 (Rs. 1,034.9 crore as on March 31, 2023). Moreover, almost all the loans are sanctioned against self-occupied residential properties with all the earning members of the family as co-applicants. As on September 30, 2023, ~70% of the company's AUM comprised home loans for construction, purchase, resale and renovation with the balance (~30%) comprising loan against property (LAP). Also, the growth potential remains high, given the low mortgage penetration in Indian markets and the underserved target segment.

Demonstrated ability to increase the scale of operations, supported by regular capital raise; need for external capital remains high – AIHFPL's capitalisation profile is adequate for the current scale of operations with a net worth of Rs. 305.6 crore and a managed gearing of 4.0x as on September 30, 2023. It raised capital of Rs. 22 crore in FY2023 from the promoters and Rs. 100 crore from Teachers Insurance and Annuity Association of America (TIAA) by way of compulsorily convertible preference shares (CCPS). This helped the company increase its AUM to Rs. 1,274.9 crore as on September 30, 2023. The capital infusion of Rs. 75 crore from TIAA in October 2023 is expected to further support the AUM growth. Nevertheless, AIHFPL would need to raise additional equity over the medium term while maintaining prudent capitalisation levels, given its modest internal capital generation and high growth plans. Overall, its ability to raise capital while continuing to grow as per its business plans would be a rating sensitivity, going forward.

Credit challenges

Moderate portfolio vulnerability arising out of target borrower profile – AIHFPL's target borrower profile comprises low-and-middle-income individuals/families with undocumented and informal sources of income. The inherent risk associated with the target borrower profile is also reflected in the high lending rates (21-26%). Consequently, delinquencies in this segment could remain volatile even though the company tries to mitigate the risk by making all income-earning members of the family loan co-applicants with adequate insurance coverage while making women the primary applicants. Hence, the volatility in the target borrower segment's cashflows would impact softer bucket days past due (dpd) movements. At the same time, given the low loan-to-value (LTV) ratios (<40%) on the loans, the ultimate losses in case of default could be lower. However, AIHFPL's ability to repossess and sell properties is yet to be established.

Asset quality pressure emanating due to limited seasoning of the loan book, given the high growth – The company's asset quality indicators have remained under control so far with the gross stage 3 assets at 0.7% and the net stage 3 assets at 0.4% as on September 30, 2023 (0.6% and 0.3%, respectively, as on March 31, 2023), albeit on a less-seasoned book. The average tenure of the loans is 7-10 years and the majority of the portfolio outstanding was originated in the last two years. Hence, AIHFPL's ability to grow while maintaining healthy asset quality indicators is yet to be established and would be a key rating monitorable, going forward.

Modest profitability indicators – AIHFPL's average yield on advances remained range-bound (22-24%) over the past two years. While the incremental cost of borrowings has come down, the balance sheet average cost of borrowings remained elevated at 14.6% in H1 FY2024 (14.4% in FY2023 and 13.1% in FY2022) because of high-cost legacy borrowings. Nonetheless, the net interest margin (NIM; on a managed asset basis) increased to 10.3% in H1 FY2024 from 8.8% in FY2023 (9.4% in FY2022) on account of upfront income booking from DA. The operating expenses, as a percentage of average managed assets, increased to 10.2% in H1 FY2024 from 9.2% in FY2023 (8.4% in FY2022) on account of continued branch expansion in existing geographies. ICRA expects the operating efficiency to improve as the company scales up and the new branches start breaking even. Credit costs, as a percentage of average managed assets, have remained negligible (0.2% in H1 FY2024) so far due to the healthy asset quality indicators.

The profitability indicators improved significantly with RoMA of 2.6% in H1 FY2024 compared to 1.4% in FY2023 (1.7% in FY2022) on account of the substantial gain from the derecognition of the DA book. However, adjusting for this, the profitability indicators remain subdued. Going forward, AIHFPL's ability to enhance the operating efficiency and control fresh slippages would be critical for improving the profitability profile with the growing scale of operations, going forward.

Liquidity position: Adequate

AIHFPL's liquidity position is adequate with some negative cumulative mismatches in the 6 month-1 year, 1-3 years and 3-5 years maturity buckets, as per the asset-liability management (ALM) profile as on September 30, 2023. For the 12-month period ending September 30, 2024, the company has debt repayments of Rs. 308 crore against which its scheduled inflows from performing advances are Rs. 115 crore. However, the liquidity is supported by unencumbered cash and liquid investments of about Rs. 210 crore and unutilised bank lines of Rs. 118 crore as on September 30, 2023. The capital infusion from investors in H2 FY2024 will support the near-term liquidity profile further.

Rating sensitivities

Positive factors – A significant increase and diversification in the scale of operations along with the ability to maintain good asset quality and profitability indicators, with RoMA of more than 2%, and a prudent capitalisation structure on a sustained basis could lead to a rating upgrade.

Negative factors – A deterioration in the asset quality indicators, resulting in pressure on the profitability indicators, could lead to a rating downgrade. Inability to maintain prudent capitalisation, with the managed gearing exceeding 6x on a sustained basis, would also be a credit negative.

Analytical approach

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

About the company

AIHFPL started operations in 2016 and is a social impact focused affordable housing finance company catering to customers with undocumented informal income in urban and semi-urban areas. It operates in the white space between traditional housing finance and microfinance and provides loans for sanitation, home extension, home improvement, and construction and LAP to low-income families from the informal sector with a strong focus on women, thereby promoting women empowerment.

As on September 30, 2023, AIHFPL had 166 branches spread across 12 states, including Rajasthan (19%), Madhya Pradesh (30%), Uttar Pradesh (17%), Karnataka (12%) and others (23%). As on September 30, 2023, ~70% of the AUM comprised home loans for construction, purchase, resale and renovation and the balance (~30%) comprised LAP. Total disbursements stood at Rs. 412.4 crore in H1 FY2024 compared to Rs. 477.0 crore in FY2023 and Rs. 334.1 crore in FY2022.

In FY2023, the company reported a profit after tax (PAT) of Rs. 16.1 crore on a total gross asset base of 1,276.5 crore as on March 31, 2023 compared to a PAT of Rs. 12.2 crore in FY2022 on a total gross asset base of Rs. 927.0 crore as on March 31, 2022. The company reported a PAT of Rs. 19.0 crore in H1 FY2024 on a total gross asset base of Rs. 1,556.5 crore as on September 30, 2023. AIHFPL had a net worth of Rs. 305.6 crore as on September 30, 2023 and Rs. 287.5 crore as on March

31, 2023, with a managed gearing of 4.0x as on September 30, 2023 and 3.3x as on March 31, 2023 compared to a net worth of Rs. 153.5 crore and a managed gearing of 4.7x as on March 31, 2022. It reported gross and net non-performing advances of 0.7% and 0.4%, respectively, as on September 30, 2023 and 0.6% and 0.3%, respectively, as on March 31, 2023 (0.3% and 0.2%, respectively, as on March 31, 2022).

Key financial indicators

	FY2021 Audited	FY2022 Audited	FY2023 Audited	H1 FY2024 Provisional
Total income	87.5	158.0	241.9	177.7
Profit after tax	(0.6)	12.2	16.1	19.0
Net worth	84.2	153.5	287.5	305.6
Gross loan book	463.4	713.3	1,029.0	1,247.5
Assets under management	465.1	725.4	1,034.9	1,274.9
Total assets	527.1	927.0	1,276.5	1,556.5
Total managed assets	527.1	947.5	1,309.7	1,635.3
Return on managed assets	-0.2%	1.7%	1.4%	2.6%*
Return on net worth	-0.7%	10.3%	7.3%	12.8%
CRAR	24.7%	31.5%	40.6%	30.4%
Reported gearing (times)	5.0	4.5	3.2	3.8
Managed gearing (times)	5.0	4.7	3.3	4.0
Gross stage 3	-	0.3%	0.6%	0.7%
Net stage 3	-	0.2%	0.3%	0.4%
Net NPA/Net worth	-	0.9%	1.1%	1.4%

Source: AIHFPL, ICRA Research; Amount in Rs. Crore; All calculations are as per ICRA Research
**Return on total assets = 2.7%*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)					Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021
					Dec 29, 2023	Oct 27, 2023	Dec 06, 2022	Oct 25, 2022	Oct 28, 2021	Aug 20, 2021	Aug 24, 2020
1	Non-convertible debenture	Long term	175.00	136.91	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Non-convertible debenture	Long term	50.00	-	[ICRA]BBB+ (Stable)	-	-	-	-	-	-

*Source: ICRA Research; *As on December 29, 2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	Simple

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

Annexure I: Instrument details (as on December 29, 2023)

ISIN	Instrument Name	Date of allotment	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0E2307179	NCD	Oct-27-2021	15.00%	Sep-28-2026	30.00	[ICRA]BBB+ (Stable)
INE0E2307161	NCD	Dec-23-2022	11.50%	Dec-23-2028	24.54	[ICRA]BBB+ (Stable)
INE0E2307153	NCD	Dec-28-2022	13.25%	Dec-04-2026	57.86	[ICRA]BBB+ (Stable)
INE0E2307187	NCD	Jul-07-2023	10.90%	Jul-07-2026	24.51	[ICRA]BBB+ (Stable)
Yet to be placed	NCD	NA	NA	NA	88.09	[ICRA]BBB+ (Stable)

Source: AIHFPL, ICRA Research

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

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About ICRA Limited:

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