

July 29, 2021 *Revised*

Aadhar Housing Finance Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	600.00	600.00	[ICRA]A1+; reaffirmed
Total	600.00	600.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the healthy scale and geographically diversified operations of Aadhar Housing Finance Limited (AHFL). As on March 31, 2021, the company had assets under management (AUM) of Rs. 13,327 crore spread across 319 branches and offices in more than 12,000 locations in 20 states/Union Territories (UTs). Further, AHFL's operations are focused on the affordable home loan segment with home loans comprising 85% of the AUM as on March 31, 2021 (85% as on March 31, 2020). Given the low penetration level and the Government of India's (GoI) thrust on Housing for All by 2022, there are good growth opportunities for small ticket size home loans. With more than 90% of its AUM comprising ticket sizes up to Rs. 20 lakh, the company is well placed to tap the demand in the affordable housing segment.

However, competition has intensified with the entry of new players and given the Covid-19-induced disruptions, the company's ability to manage the pressure on its business growth and asset quality will remain a key monitorable. The rating also takes into account AHFL's experienced management and adequate internal controls and systems. Post the change in ownership¹, the senior management team has been retained, which has maintained stability in the company's operations. Further, the investor infused Rs. 1,300 crore of equity capital into the company in FY2020. Following this, AHFL's capitalisation profile improved significantly and the gearing remained low at 3.9 times as on March 31, 2021. Over the medium term, AHFL plans to operate at net leverage levels in the range of 5-6 times. It is in the process of launching its initial public offering through which it plans to raise ~Rs. 1,500 crore of fresh equity capital, which would help in supporting its growth plans while maintaining a prudent capitalisation profile. The rating also factors in the company's fairly diversified funding profile, which comprised loans from banks (62%), refinance from National Housing Bank (NHB; 16%), non-convertible debentures (NCDs; 21%), subordinated debt (1%) and deposits as on March 31, 2021.

AHFL's profitability profile, albeit improving, remains moderate compared to peers. It reported a net profit of Rs. 340 crore in FY2021, translating into a return of 2.2% on average managed assets (AMA; includes direct assigned portfolio) and 13.5% on the average net worth compared to Rs. 189 crore, 1.5% and 11.8%, respectively in FY2020. Given the pace of growth and the relatively riskier borrower profile of the low-and-assessed-income segments, the asset quality indicators could exhibit more volatility. Collections in the affordable housing finance segment were impacted in Q1 FY2022 by the lockdowns/restrictions on account of the second wave of the Covid-19 pandemic. Consequently, ICRA expects the asset quality to deteriorate in FY2022 as borrowers' livelihoods have been impacted and their savings corpus would also start reducing gradually. While the company has a good credit appraisal and collection mechanism, which has helped maintain stable asset quality indicators with gross non-performing assets (NPAs) of 1.2% and net NPAs of 0.8% as on March 31, 2021 (1.3% and 0.8%, respectively, as on March 31, 2020), it remains exposed to the volatility in the asset quality, given the risk associated with the target borrower segment. Going forward, AHFL's ability to maintain the asset quality as it scales up its operations will be important for its credit profile.

¹ The Blackstone Group acquired a majority stake from the erstwhile promoters and investors in June 2019; as on March 31, 2021, the Blackstone Group held a 98.7% stake in the company

Key rating drivers and their description

Credit strengths

Healthy scale of operations with geographically diversified portfolio – The company has witnessed a steady growth in its AUM over the years, which increased to Rs. 13,327 crore as on March 31, 2021 from Rs. 5,102 crore as on March 31, 2017. Further, AHFL's operations are geographically diversified and spread across more than 12,000 locations in 20 states/UTs through 319 branches and offices as on March 31, 2021. The top 3 states accounted for 42% of the company's AUM as on March 31, 2021 (43% as on March 31, 2020). Moreover, it has a presence in cities catering to the demand created by the 'Housing for All by 2022' scheme.

Experienced management team; adequate internal controls and systems – AHFL's management team, which has been retained post the change in ownership, is experienced and has a demonstrated track record of creating scale in the housing finance business. The company has also set up adequate credit appraisal, risk management and portfolio monitoring systems. ICRA expects AHFL to continue to improve its processes and systems, in line with the growth in the business volumes.

Adequate capitalisation profile – Subsequent to the majority stake purchase by BCP Topco VII Pte Ltd, the investor infused Rs. 1,300 crore of equity capital in the company in FY2020 (Rs. 800 crore in June 2019 and Rs. 500 crore in March 2020). Following this, AHFL's capitalisation profile improved significantly and the gearing remained low at 3.9 times as on March 31, 2021. AHFL was carrying significant on-book liquidity (~17% of total assets) as on March 31, 2021, adjusting for which the net gearing was much lower at 2.9 times as on March 31, 2021. Over the medium term, AHFL plans to operate at net leverage levels in the range of 5-6 times. The company is in the process of launching its initial public offering through which it plans to raise ~Rs. 1,500 crore of fresh equity capital, which would help in supporting its growth plans while maintaining a prudent capitalisation profile.

Fairly diversified funding profile – The funding profile is fairly diversified and comprised loans from banks (62%), refinance from NHB (16%), NCDs (21%), subordinated debt (1%) and deposits as on March 31, 2021. The company raised a nominal Rs. 50 crore through commercial papers in FY2021 and there were no commercial papers outstanding as on March 31, 2021. In terms of fund raising, post the change in ownership, AHFL has been able to raise funds regularly from diversified funding sources, having raised around Rs. 3,651 crore of on-book borrowings in FY2021 (~Rs. 3,800 crore in FY2020), including funds under the targeted long-term repo operations (TLTRO) scheme.

Growth opportunities in affordable housing segment – Given the low penetration level and the Govt's thrust on Housing for All by 2022, there are good growth opportunities for small ticket size home loans. As on March 31, 2021, 85% of the company's AUM comprised home loans. With more than 90% of its AUM comprising ticket sizes up to Rs. 20 lakh, the company is well placed to tap the demand in the affordable housing segment. However, given the presence of new entrants, the competitive landscape and the impact of Covid-19, AHFL's ability to manage the pressure on margins will remain a key monitorable.

Credit challenges

Moderate, albeit improving, profitability indicators – In FY2021, the yield on average earning assets for the company largely remained stable while the cost of average interest-bearing funds declined by 74 basis points (bps) to 8.2% with the systemic softening of interest rates and incremental borrowings at lower costs. With the decline in the cost of average interest-bearing funds, the net interest margin improved by 67 bps to 4.2% of AMA in FY2021. Operating expenses also reduced to 1.6% of AMA in FY2021 from 1.8% in FY2020 owing to lower administrative expenses. Credit costs declined to 0.4% of AMA with largely stable asset quality indicators despite the Covid-19-induced disruptions. With the improvement in margins and operational efficiencies and the low credit costs, AHFL's profitability profile improved. It reported a net profit of Rs. 340 crore in FY2021, translating into a return of 2.2% on AMA and 13.5% on the average net worth. Nevertheless, the profitability profile remains moderate compared to peers.

Ability to maintain asset quality – The company reported stable asset quality indicators with gross NPAs of 1.2% and net NPAs of 0.8% as on March 31, 2021 (1.3% and 0.8%, respectively, as on March 31, 2020). AHFL mainly lends to borrowers in the low-

income segment, which is more vulnerable to income shocks. Given the pace of growth and the relatively riskier borrower profile of the low-and-assessed-income segments, the asset quality indicators could exhibit more volatility. Collections in the affordable housing finance segment were impacted in Q1 FY2022 by the lockdowns/restrictions on account of the second wave. ICRA expects the asset quality to deteriorate in FY2022 as livelihoods have been impacted and the savings corpus would also start reducing gradually. While the company has a good credit appraisal mechanism, it remains exposed to the volatility in the asset quality, given the risk associated with the target borrower segment. Going forward, AHFL's ability to maintain the asset quality as it scales up its operations will be important for its credit profile.

Liquidity position: Strong

The company's liquidity profile is strong, given the significant on-book liquidity and the demonstrated ability to raise funds. As per the asset-liability management profile as on March 31, 2021, the company had no cumulative mismatches across the buckets. It had Rs. 2,348 crore of free cash, bank balances and liquid investments as on March 31, 2021 against scheduled debt obligations of Rs. 1,759 crore in H1 FY2022. Additionally, AHFL had access to sanctioned unutilised of Rs. 1,340 crore as on March 31, 2021, which further supports its liquidity profile.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the company's rating could arise if there is a deterioration in the asset quality with the gross NPAs exceeding 3%, thereby affecting the profitability. A deterioration in the capitalisation profile with the gearing exceeding 6 times on a sustained basis or a stretch in the liquidity could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing Finance Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Aadhar Housing Finance Limited was set up in 1990 to provide rural housing loans in the lower-ticket size segment. As on March 31, 2021, the Blackstone Group, through its fund BCP Topco VII Pte Limited, has a 98.7% stake in the company. At present, AHFL focuses on the lower-and-middle-income segment and provides home loans and loan against property. As on March 31, 2021, the company was present in 20 states/UTs through a network of 319 branches and offices while managing a portfolio of Rs. 13,327 crore.

Key financial indicators (audited)

Aadhar Housing Finance Limited	FY2020	FY2021
As per	Ind-AS	Ind-AS
Total income (Rs. crore)	1,372	1,550
Profit after tax (Rs. crore)	189	340
Net worth (Rs. crore)	2,347	2,693
Gross AUM (Rs. crore)	11,432	13,327
Total managed assets (Rs. crore)	14,736	16,175
Return on average managed assets (%)	1.5%	2.2%
Return on average net worth (%)	11.8%	13.5%
Gearing (times)	4.1	3.9
Gross NPA (%)	1.3%	1.2%
Net NPA (%)	0.8%	0.8%
Solvency (Net NPA/Net worth)	3.0%	3.2%
CRAR (%)	51.4%	44.1%

Source: Company, ICRA research;

Total managed assets = (Total assets on balance sheet + Direct assigned portfolio); All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Jul-29-2021	Jul-31-2020	Jun-20-2019	Feb-05-2019	May-18-2018
1	Commercial paper programme	Short term	600.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+

& - On Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper Programme	Very 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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial paper programme – Yet to be issued	NA	NA	7-365 days	600.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

Corrigendum:

- Total managed assets given on Page 4 as a part of key financial indicators has been revised.

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