August 20, 2021 Revised

Aviom India Housing Finance Pvt Ltd: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	5.00	5.00	[ICRA]BBB- (Stable); reaffirmed
Total	**5.00**	**5.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating factors in Aviom India Housing Finance Pvt Ltd's (AIHFPL) granular loan book, which has relatively small ticket sizes (Rs. 2.5-3 lakh). Moreover, the loan book is secured against self-occupied residential properties with a high security cover (loan-to-value (LTV) ratio of ~35%) and ~63% of the assets under management (AUM) comprised home loans for construction, purchase, resale and renovation as on June 30, 2021. The rating also factors in AIHFPL's high growth potential in affordable housing, given the low credit penetration in this segment.

The rating is, however, constrained by the moderate scale of operations and portfolio vulnerability reflected by the marginal target borrower profile comprising low-and-middle-income individuals/families with undocumented and informal sources of income. While the company has been able to maintain the asset quality indicators so far with nil gross non-performing assets (NPAs) as on June 30, 2021, this is on a relatively less-seasoned loan book coupled with high growth. Hence, AIHFPL's ability to maintain healthy asset quality indicators across economic cycles is yet to be established. Nevertheless, the risk is somewhat mitigated by the secured nature of the loans and the low LTV ratios, which will limit the ultimate losses in case of defaults.

The rating also factors in AIHFPL's subdued profitability indicators (return on assets (RoA) of 0.6% in FY2021) owing to the high operating expenses incurred during its rapid geographical expansion across 13 states as on March 31, 2021 with the company being in expansion mode. ICRA notes that AIHFPL's capital-raising plans were delayed due to the Covid-19 pandemic. Moreover, with business growth still being in line with the business plans, the capitalisation profile weakened, and the gearing increased to 4.7 times as on March 31, 2021 from 2.4 times as on March 31, 2020. In this regard, the company's ability to maintain prudent capitalisation while growing as per plans would be a key monitorable.

ICRA also notes that AIHFPL's borrowing mix is currently concentrated largely towards non-banking financial companies/financial institutions (NBFCs/FIs; ~67% of the total borrowings as on March 31, 2021). While funding tie-ups have increased over the last fiscal and the borrowing mix is diversified in terms of the number of lenders, the company would 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 a key monitorable.

Key rating drivers and their description

Credit strengths

Granular retail portfolio and good growth opportunities 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 to 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 20,000+ against the AUM of Rs. 503 crore as on June 30, 2021; almost all the loans are sanctioned against self-occupied residential properties.

As on June 30, 2021, ~63% of the company's AUM comprised home loans for construction, purchase, resale and renovation with the balance comprising loan against property (LAP). Also, given the low mortgage penetration in Indian markets, the growth potential remains high. However, AIHFPL's ability to tap demand would remain a key monitorable, given the challenging operating environment and the uncertainty regarding further lockdowns across states due to the pandemic.

Credit challenges

Moderate portfolio vulnerability – AIHFPL's target borrower profile comprises low-and-middle-income individuals/families with undocumented and informal sources of income. These borrowers could be more susceptible to downturns in the economy, given their limited income buffers to absorb economic shocks. The inherent risk associated with the target borrower profile is also reflected by the high lending rates (21-27%). 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. This could be the case especially in the softer buckets and given the tough operating environment, which could impact borrower cash flows. At the same time, given the low LTVs on the loans, the ultimate losses in case of default could be lower, though the company's ability to repossess and sell properties is yet to be established.

Untested asset quality indicators – AIHFPL reported healthy asset quality indicators with nil GNPAs as on June 30, 2021, albeit on a less-seasoned loan 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, the company's ability to maintain healthy asset quality indicators through economic cycles is yet to be established and would be a key rating monitorable going forward.

In Q1 FY2022, delinquencies increased in the softer buckets as collections dropped by ~10% due to the lockdown imposed in certain regions on account of the second wave of the pandemic. Given the marginal target borrower profile and the rapid expansion in a short period of time resulting in limited portfolio seasoning, fresh slippages are expected to increase over the medium term. Nevertheless, AIHFPL operates at low LTVs (~35%) and has adequate credit underwriting processes. The company's ability to maintain the underwriting standards, train the manpower and set up strong collection processes at the new branches would be critical for maintaining its credit profile.

Modest profitability indicators – AIHFPL's average yield on advances remained range-bound at 18-19% with the net interest margin (NIM) increasing to 12.1% in FY2021 from 10.0% in FY2020 largely due to an increase in the processing fee earned on loans. The operating costs remained high in relation to the average total assets (ATA) and increased significantly to 11.3% in FY2021 from 8.3% in FY2020 due to the rapid expansion with new branches being set up across 10 new states during the year. This resulted in subdued profitability indicators with the company reporting an RoA and a return on equity (RoE) of 0.6% and 2.7%, respectively, in FY2021.

The credit costs have remained negligible (0.2% of ATA in FY2021) so far due to the healthy asset quality indicators. However, there could be some increase in delinquencies as the portfolio seasons and also because of the uncertainty regarding additional lockdowns being imposed due to the pandemic, which, in turn, could impact the cash flows of the borrowers. Overall, AIHFPL's ability to improve its operating efficiency and control fresh slippages would be critical for improving the profitability profile going forward.

Diversification in borrowing mix and prudent capitalisation important for growth – AIHFPL's borrowing mix remains concentrated with large dependency on NBFCs/FIs for funding (~67% as on March 31, 2021) with small finance banks accounting for the rest. Though the borrowing mix in terms of number of lending partners is diversified (about 35 lending partners as on March 31, 2021), the company's ability to tap the debt capital markets and draw larger funding lines from banks would be important to scale up its operations. Given the challenging operating environment, ICRA favourably notes AIHFPL's increasing funding tie-ups. ICRA also notes the company's sanctioned limits from National Housing Bank (NHB) through its special refinance and liquidity infusion facility (LIFt) schemes and the Rs. 35-crore long-term loan from IndusInd Bank, which is fully guaranteed by the US-based Development Finance Corporation.

AIHFPL's geographical presence increased significantly with the number of branches increasing to 105, spread across 13 states as on June 30, 2021, from 25 branches spread across 3 states as on June 30, 2020. The AUM increased by 105% YoY to Rs. 503 crore as on June 30, 2021 from Rs. 245 crore as on June 30, 2020. The growth was funded through fresh borrowings, as the company's capital-raising plans were delayed due to the pandemic. Consequently, the gearing increased to 4.7 times as on March 31, 2021 from 2.4 times as on March 31, 2020. To continue growing as per its business plans while maintaining prudent capitalisation levels, AIHFPL would need to raise equity over the medium term.

Liquidity position: Adequate

AIHFPL's liquidity position is adequate with some negative cumulative mismatches in the medium-term maturity buckets. The expected debt repayments (including interest) in the next one year stood at ~Rs. 197 crore against expected inflows from advances (including interest) of ~Rs. 142 crore as on June 30, 2021. However, the liquidity is supported by unencumbered cash and bank balances of Rs. 17.6 crore and unutilised bank lines of Rs. 3.5 crore as on June 30, 2021. Also, the company expects to raise Rs. 60 crore in equity by the end of August 2021, which will further support its near-term liquidity profile.

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 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 raise capital to maintain prudent capitalisation with the leverage exceeding 6 times on a sustained basis would also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing 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. The company operates in the white space between traditional housing finance and microfinance and provides loans for sanitation, home extension, home improvement, construction and loan against property to families from the informal sector with a strong focus on women, thereby promoting women empowerment.

As on June 30, 2021, AIHFPL had 105 branches spread across 13 states, including Rajasthan (45% of AUM), Madhya Pradesh (25%), Uttar Pradesh (8%), Karnataka (7%), Haryana (6%) and others. As on June 30, 2021, ~63% of the AUM comprised home loans for construction, purchase, resale and renovation and the balance ~37% comprised LAP. The total disbursements in FY2021 stood at Rs. 246 crore compared to Rs. 130 crore in FY2020.

In FY2021, AIHFPL reported a profit after tax (PAT) of Rs. 2.4 crore on a total asset base of Rs. 533.7 crore as on March 31, 2021 (based on provisional financials) compared to a PAT of Rs. 2.5 crore in FY2020 on a total asset base of Rs. 304.4 crore as on March 31, 2020. As on March 31, 2021, the company's net worth stood at Rs. 89.1 crore with a gearing of 4.7 times.

Key financial indicators

AIHFPL	FY2019	FY2020	FY2021
	Audited	Audited	Provisional
Profit after tax (Rs. crore)	1.5	2.5	2.4
Net worth[1] (Rs. crore)	25.4	86.7	89.1
Loan book (Rs. crore)	128.0	242.4	462.7
Total assets^ (Rs. crore)	154.0	304.4	533.7
Return on assets (%)	1.4%	1.1%	0.6%
Return on net worth (%)	6.9%	4.4%	2.7%
Gross gearing (times)	4.8	2.4	4.7
Gross NPA (%)	Nil	Nil	Nil
Net NPA (%)	Nil	Nil	Nil
Solvency (Net NPA/Net worth)	Nil	Nil	Nil
CRAR (%)	26.3%	49.3%	24.3%

Source: *AIHFPL, ICRA Research; All ratios as per ICRA calculations; ^Gross value*

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 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				Aug 20, 2021	Aug 24, 2020	-	-
Non-convertible Debenture Programme	Long Term	5.00	5.00	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture 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: Click Here

[1] *Including CCPS*

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0E2307013	NCD	Aug 25, 2020	13.90	Aug 25, 2023	5.00	[ICRA]BBB- (Stable)

Source: *AIHFPL*

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

Corrigendum

Document dated August 20, 2021 has been corrected with revisions as detailed below:

NCD ISIN Details have been added on Page 5.

'Amount outstanding' in the 'Rating history for past three years' table has been corrected to Rs. 5 crore from Rs. 0 crore on Page 4.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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