December 06, 2022

Aviom India Housing Finance Pvt Ltd: [ICRA]BBB (Stable) assigned; earlier rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	35.00	35.00	[ICRA]BBB (Stable); reaffirmed
Non-convertible debenture	-	100.00	[ICRA]BBB (Stable); assigned
Total	**35.00**	**135.00**	

**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. 885 crore as on September 30, 2022, while keeping the asset quality indicators under control. The rating also factors in AIHFPL's moderate capitalisation profile with a net worth of Rs. 159.1 crore and a managed gearing of 5.5x as on September 30, 2022, supported by the regular capital raise from external investors. Nevertheless, given its high growth plans and modest internal capital generation, AIHFPL would need to continuously raise capital to grow while maintaining a prudent capitalisation profile. AIHFPL's 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, however, constrained by the moderate scale of operations, modest profitability indicators and 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 non-performing assets (GNPAs) of 0.5% as on September 30, 2022, this is on a relatively less-seasoned loan book. Hence, AIHFPL's ability to maintain healthy asset quality indicators with the growing scale on a sustained basis will be a key monitorable. At the same time, the ultimate losses in case of default are likely to be limited, given the secured nature of the loans and the low loan-to-value (LTV) ratios.

Despite improving, AIHFPL's profitability indicators (return on managed assets (RoMA) of 0.9% in H1 FY2023 and 1.7% in FY2022) continue to be modest as it remains in expansion mode and hence has elevated operating expenses. ICRA expects the profitability indicators to improve over the medium term with operating efficiency 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 a key monitorable.

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 39,000+ against an AUM of Rs. 885.4 crore as on September 30, 2022 (Rs. 725.4 crore as on March 31, 2022) and almost all the loans sanctioned against self-occupied residential properties with all the earning members of the family as co-applicants. As on September 30, 2022, ~64% of the company's AUM comprised home loans for construction, purchase, resale and renovation with the balance (~36%) comprising loan against property (LAP). Also, given the low mortgage penetration in Indian markets, the growth potential remains high.

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. These borrowers could be more susceptible to downturns in the economy, given their limited income buffer to absorb economic shocks. The inherent risk associated with the target borrower profile is also reflected in the high lending rates (21-27%). 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. This could be the case, especially in the softer buckets, which could impact borrower cash flows despite the recovery in the operating environment. At the same time, given the low LTVs (<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 pressures emanating amid limited seasoning of the loan book, given the high growth – So far, the company's asset quality indicators have remained under control with GNPAs of 0.5% and net NPAs (NNPAs) of 0.3% as on September 30, 2022 (0.3% and 0.2%, respectively, as on March 31, 2022), albeit on a less seasoned book (GNPA on a 1-year lagged basis stood at 0.6% as on September 30, 2022). The average tenure of the loans is 7-10 years, and the majority of the portfolio outstanding was originated in the last two years. ICRA notes that the adoption of the Reserve Bank of India's (RBI) new circular on NPA recognition, as per the new Income Recognition and Asset Classification (IRAC) norms from October 2022, along with portfolio seasoning might exert some pressure on the asset quality. Hence, the company's ability to grow while maintaining healthy asset quality indicators is yet to be established and would be a key rating monitorable, going forward.

The company's delinquencies in the softer buckets had increased in FY2022 because of muted collections in Q1 FY2022. This was due to the lockdown imposed in certain regions on account of the second wave of the Covid-19 pandemic. Further, while collections improved in H1 FY2023 because of higher average prepayments/foreclosures, the inter-stage movement led to an increase in delinquencies in the harder buckets despite the focus on collecting overdues from the 90+ days past due (dpd) accounts. Overall, fresh slippages are expected to increase over the medium term, given the marginal target borrower profile and the limited portfolio seasoning due to the rapid expansion in a short period of time. Nevertheless, AIHFPL operates at low LTVs (<40%) and has adequate credit underwriting processes. Its 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, albeit improving, profitability indicators – AIHFPL's average yield on advances remained range-bound (24-26%) over the past two years while the borrowing cost remained high at 13.6% for H1 FY2023 (13.0% for FY2022). The net interest margin (NIM), however, remained stable at 11.5% in FY2022 compared to 11.3% in FY2021 because of the income from a direct assignment (DA) transaction executed in FY2022. Subsequently, the NIM moderated to 10.4% in H1 FY2023. Earlier, the rapid geographical expansion had increased the operating expenses to 11.0% in FY2021 from 8.3% in FY2020. With economies of scale, the operating expenses moderated to 8.5% in FY2022, though the same increased to 9.2% in H1 FY2023 with continued branch expansion in existing geographies. ICRA notes that the company plans to expand its AUM across the new branches in existing geographies and as these branches reach breakeven (3-4 months), the operating costs are expected to moderate, going forward. The increase in delinquencies led to a marginal increase in the credit costs to 0.5% in FY2022 from 0.2% in FY2021. However, the improvement in collections in H1 FY2023 led to the writeback of provisions, resulting in negative credit costs of -0.1% in H1 FY2023.

Overall, the profitability improved with RoMA of 1.7% and a return on net worth (RoNW) of 10.3% in FY2022 compared to -0.2% and -0.7%, respectively, in FY2021. Subsequently, the moderation in NIMs and the increase in operating expenses led to subdued profitability indicators with RoMA of 0.9% and RoNW of 5.8% in H1 FY2023. Overall, AIHFPL's ability to improve the operating efficiency and control fresh slippages would be critical for improving the profitability profile with the growing scale of operations, going forward.

Moderate capitalisation profile; fund-raising requirement remains high, given the growth plans – AIHFPL's capitalisation profile remains moderate for the current scale of operations with a net worth of Rs. 159.1 crore as on September 30, 2022 and a managed gearing of 5.5x as on September 30, 2022. Earlier, it had raised capital of Rs. 59 crore in FY2022 from Sabre Partners by way of Series C preference shares, which helped it grow while maintaining moderate capitalisation levels. The diversification in AIHFPL's borrowing mix improved to some extent in FY2022 and H1 FY2023 with the company tapping the debt markets as well. As on September 30, 2022, 32.8% of the total borrowing comprised non-convertible debentures (NCDs), while loans from non-banking financial companies (NBFCs)/financial institutions (FIs) comprised 37.2% and banks accounted for the remaining 30.0%. The borrowing mix is also diversified in terms of the number of lending partners (about 60 lending partners as on September 30, 2022). However, the company's ability to continue tapping the debt capital markets and draw larger funding lines from public sector banks would be important to scale up its operations. ICRA favourably notes AIHFPL's increasing funding tie-ups amid the recovery in the operating environment. ICRA also notes the company's sanctioned limits from National Housing Bank (NHB) through its special refinance and liquidity infusion facility (LIFt) schemes.

Given its modest internal capital generation and high growth plans, AIHFPL would need to raise additional equity over the medium term while maintaining prudent capitalisation levels. In this regard, the company raised Rs. 20-crore capital by way of promoter warrants in October 2022 and plans to raise fresh capital in H2 FY2023. Overall, its ability to raise capital while continuing to grow as per its business plans would be a rating sensitivity, going forward.

Liquidity position: Adequate

AIHFPL's liquidity position is adequate with some negative cumulative mismatches in the medium-term maturity buckets as per the asset-liability management (ALM) profile as on September 30, 2022. For the 12-month period ending September 30, 2023, the company has debt repayments (excluding interest) of about Rs. 223 crore against which its scheduled inflows from performing advances (excluding interest) are about Rs. 76 crore. However, the liquidity is supported by an unencumbered cash and bank balance of about Rs. 92 crore (~11% of borrowings) and unutilised bank lines of Rs. 20 crore as on September 30, 2022. The capital infusion of about Rs. 20 crore from the promoter in October 2022 and the expected capital raise from new investors in H2 FY2023 will further support the 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 maintain prudent capitalisation with the leverage 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. The company 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, 2022, AIHFPL had 118 branches spread across 14 states, including Rajasthan (27%), Madhya Pradesh (26%), Uttar Pradesh (13%), Karnataka (13%) and others (21%). As on September 30, 2022, ~64% of the AUM comprised home loans for construction, purchase, resale and renovation and the balance (~36%) comprised LAP. The total disbursements stood at Rs. 328.9 crore in FY2022 compared to Rs. 246.2 crore in FY2021. In H1 FY2023, the disbursements stood at Rs. 233.6 crore.

In FY2022, AIHFPL reported a profit after tax (PAT) of Rs. 12.2 crore on a total asset base of Rs. 927.0 crore (total managed assets of Rs. 947.5 crore) as on March 31, 2022 compared to a net loss of Rs. 0.6 crore in FY2021 on a total asset base of Rs. 527.1 crore (total managed assets of Rs. 527.1 crore) as on March 31, 2021. In H1 FY2023 (based on provisional financials), the company reported a PAT of Rs. 4.6 crore on a total asset base of Rs. 1,078.9 crore (total managed assets of Rs. 1,097.2 crore). As on September 30, 2022, the company's net worth stood at Rs. 159.1 crore with a managed gearing of 5.5x compared to Rs. 153.5 crore and 4.7x, respectively, as on March 31, 2022 (Rs. 84.2 crore and 5.0x, respectively, as on March 31, 2021). The company reported GNPAs and NNPAs of 0.5% and 0.3%, respectively, as on September 30, 2022, compared to 0.3% and 0.2%, respectively, as on March 31, 2022 (nil GNPAs as on March 31, 2021).

Key financial indicators

	FY2020	FY2021	FY2022	H1 FY2023
Total income	44.5	87.5	158.0	106.3
Profit after tax	2.5	(0.6)	12.2	4.6
Net worth	86.7	84.2	153.5	159.1
Gross loan book	243.8	463.4	713.3	879.0
Total assets	304.4	527.1	927.0	1,078.9
Total managed assets	304.4	527.1	947.5	1,097.2
Return on managed assets	1.1%	-0.2%	1.7%	0.9%
Return on net worth	4.4%	-0.7%	10.3%	5.8%
CRAR	49.3%	24.7%	31.5%	25.1%
Reported gearing (times)	2.4	5.0	4.5	5.4
Managed gearing (times)	2.4	5.0	4.7	5.5
Gross NPAs	-	-	0.3%	0.5%
Net NPAs	-	-	0.2%	0.3%
Net NPA/Net worth	-	-	0.9%	1.6%

Source: AIHFPL, ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Dec 06, 2022	Oct 25, 2022	Oct 28, 2021	Aug 20, 2021	Aug 24, 2020	-
1	**Non-convertible debenture**	Long term	35.00	35.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	**Non-convertible debenture**	Long term	100.00	-	[ICRA]BBB (Stable)	-	-	-	-	-

Source: ICRA Research
**As on November 30, 2022*

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 November 30, 2022)

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)
INE0E2307104	NCD	Nov-09-2021	11.70%	Nov-13-2027	30.00	[ICRA]BBB (Stable)
NA	NCD*	NA	NA	NA	100.00	[ICRA]BBB (Stable)

*Source: AIHFPL, ICRA Research; * Yet to be placed*

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

ANALYST CONTACTS

Karthik Srinivasan
+91-22-6114 3444
karthiks@icraindia.com

Manushree Saggar
+91-124-4545 316
manushrees@icraindia.com

Rajat Kher
+91 124 4545 833
rajat.kher@icraindia.com

Jesse Vishwanathan
+91 124 4545 324
jesse.vishwanathan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches