October 27, 2023 (Revised)

Aviom India Housing Finance Pvt Ltd: Rating upgraded to [ICRA]BBB+ (Stable); [ICRA]BBB+ (Stable) assigned to NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	130	130	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Non-convertible debenture	5	-	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable) and withdrawn
Non-convertible debenture	-	45	[ICRA]BBB+ (Stable); assigned
Total	**135**	**175**	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade 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. 1,168 crore as on June 30, 2023 (Rs. 1034.9 crore as on March 31, 2023, Rs. 725.4 crore as on March 31, 2022), while keeping the asset quality indicators under control. It also factors in AIHFPL's adequate capitalisation profile with a net worth of Rs. 291.6 crore and a managed gearing of 3.9x as on June 30, 2023, supported by the regular capital raise from existing and new investors. Nevertheless, AIHFPL would need to continuously raise capital to grow while maintaining 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 0.6% as on June 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.

Despite improving, AIHFPL's profitability indicators (return on average managed assets (RoMA) of 1.5% in Q1 FY2024 and 1.4% in FY2023) continue to be modest as it remains in expansion mode and has elevated operating expenses. 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 a key monitorable.

ICRA has upgraded and withdrawn the rating assigned to the Rs. 5-crore non-convertible debentures as these have been fully redeemed and no amount is outstanding against the same. The rating was withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

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 56,071 against the AUM of Rs. 1,168.0 crore as on June 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 June 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. 291.6 crore and a managed gearing of 3.9x as on June 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. 1,168 crore as on June 30, 2023 and Rs. 1,034.9 crore as on March 31, 2023 from Rs. 725.4 crore as on March 31, 2022. 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. 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 (21-26%). 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. 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 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 amid limited seasoning of the loan book, given the high growth – The company's asset quality indicators have remained under control so far with gross stage 3 assets at 0.6% and net stage 3 assets at 0.3% as on June 30, 2023 as well as March 31, 2023 (0.3% and 0.2%, respectively, as on March 31, 2022), 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, albeit improving, profitability indicators – AIHFPL's average yield on advances remained range-bound (22-24%) over the past two years while the weighted average borrowing cost declined marginally to 14.1% in Q1 FY2024 from 14.4% in FY2023 (13.1% in FY2022) with some of the high-cost borrowings getting replaced by relatively lower cost funds. Consequently, the net interest margin (NIM) increased to 9.0% in Q1 FY2024 from 8.8% in FY2023 (9.4% in FY2022). The operating expenses, as a percentage of average managed assets, increased to 10.1% in Q1 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 cost as a percentage of average managed assets is negligible in FY2023 on account of reduction in provision cover for stage 1 and stage 2 assets. In Q1 FY2024, it increased to 0.5% on account of fresh slippages and increase in stage 3 provision cover. Overall, the profitability improved with RoMA of 1.5% and a return on net worth (RoNW) of 7.5% in Q1 FY2024 compared to 1.4% and 7.3%, respectively, in FY2023 (1.7% and 10.3%, respectively, in FY2022). The moderation in NIMs and the increase in operating expenses from FY2022 led to subdued profitability indicators in Q1 FY2024. 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.

Liquidity position: Adequate

AIHFPL's asset-liability management ALM profile is characterised by some negative cumulative mismatches in the 1-3 years and 3-5 years maturity buckets as per the ALM profile as on June 30, 2023. For the 12-month period ending June 30, 2024, the company has debt repayments (excluding interest) of Rs. 269 crore against which its scheduled inflows from performing advances (excluding interest) are Rs. 109 crore. However, the liquidity is supported by cash and liquid investments of about Rs. 257 crore and unutilised bank lines of Rs. 30 crore as on June 30, 2023.

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 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 Non-banking Finance Companies ICRA's Credit Policy on Withdrawal of Credit Ratings
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 June 30, 2023, AIHFPL had 128 branches spread across 12 states, including Rajasthan (20%), Madhya Pradesh (28%), Uttar Pradesh (16%), Karnataka (13%) and others (23%). As on June 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. 201.7 crore in Q1 FY2024 compared to Rs. 477.0 crore in FY2023 and Rs. 334.1[1] crore in FY2022.

[1]Earlier rationale stated Rs. 328.9 crore as per provisional financials shared by the company.

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. 5.4 crore in Q1 FY2024 on a total gross asset base of Rs. 1,469.9 crore as on June 30, 2023. AIHFPL had a net worth of Rs. 291.6 crore as on June 30, 2023 and Rs. 287.5 crore as on March 31, 2023, with a managed gearing of 3.9 times as on June 30, 2023 and 3.3 times as on March 31, 2023 compared to a net worth of Rs. 153.5 crore and a managed gearing of 4.7 times as on March 31, 2022. It reported gross and net non-performing advances of 0.6% and 0.3%, respectively, as on June 30, 2023 as well as March 31, 2023 compared to 0.3% and 0.2%, respectively, as on March 31, 2022.

Key financial indicators

	FY2021	FY2022	FY2023	Q1 FY2024
	Audited	Audited	Audited	Provisional
Total income	87.5	158.0	241.9	80.1
Profit after tax	(0.6)	12.2	16.1	5.4
Net worth	84.2	153.5	287.5	291.6
Gross loan book	463.4	713.3	1,029.0	1,167.0
Total assets	527.1	927.0	1,276.5	1,469.9
Total managed assets	527.1	947.5	1,309.7	1,501.3
Return on managed assets	-0.2%	1.7%	1.4%	1.5%
Return on net worth	-0.7%	10.3%	7.3%	7.5%
CRAR	24.7%	31.5%	40.6%	33.3%
Reported gearing (times)	5.0	4.5	3.2	3.7
Managed gearing (times)	5.0	4.7	3.3	3.9
Gross stage 3%	-	0.3%	0.6%	0.6%
Net stage 3%	-	0.2%	0.3%	0.3%
Net NPA/Net worth	-	0.9%	1.1%	1.3%

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 (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
					Oct 27, 2023	Dec 06, 2022	Oct 25, 2022	Oct 28, 2021	Aug 20, 2021	Aug 24, 2020
1	Non-convertible debenture	Long term	130.00	112.40	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Non-convertible debenture	Long term	5.00	-	[ICRA]BBB+ (Stable) withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Non-convertible debenture	Long term	45.00	24.51	[ICRA]BBB+ (Stable)	-	-	-	-	-

*Source: ICRA Research; *As on Oct 27, 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 October 27, 2023)

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0E2307179	**NCD**	Nov-09-2021	15.00%	Sep-28-2026	30.00	[ICRA]BBB+ (Stable)
INE0E2307161	**NCD**	Nov-01-2022	11.50%	Dec-23-2028	24.54	[ICRA]BBB+ (Stable)
INE0E2307153	**NCD**	Nov-16-2022	13.25%	Dec-04-2026	57.86	[ICRA]BBB+ (Stable)
INE0E2307187	**NCD**	Jun-22-2023	10.90%	Jul-07-2026	24.51	[ICRA]BBB+ (Stable)
INE0E2307013	**NCD**	Aug-25-2020	13.90%	Aug-25-2023	5.00	[ICRA]BBB+ (Stable); withdrawn
NA	**NCD***	NA	NA	NA	38.09	[ICRA]BBB+ (Stable)

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

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

Corrigendum:

Document dated October 27, 2023, has been corrected with revision as detailed below:
Summary of rating action table (page 1): Previous rated amount for the non-convertible debenture changed from Rs. 135 crore to Rs. 130 crore.

ANALYST CONTACTS

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

A M Karthik
+91- 44-45964 308
a.karthik@icraindia.com

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

Niharika Tomar
+91-124-4545 324
niharika.tomar@icraindia.com

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

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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