July 29, 2024 (Revised)

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	225	225	[ICRA]BBB+ (Stable); reaffirmed
Non-convertible debenture	-	65	[ICRA]BBB+ (Stable); assigned
Total	**225**	**290**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Aviom India Housing Finance Pvt Ltd's (AIHFPL) ability to increase its scale of operations, with assets under management (AUM) of Rs. 1,752.4 crore as on March 31, 2024 (Rs. 1,034.9 crore as on March 31, 2023), while keeping the asset quality indicators under control. It also factors in the adequate capitalisation profile with a net worth of Rs. 402.6 crore and a managed gearing of 3.8x as on March 31, 2024, 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 0.97% as on March 31, 2024 (marginally above 0.57% as on March 31, 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 FY2024 (2.7% from 1.4% in FY2023), largely on account of the upfront income booked on direct assignment (DA) transaction. 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 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. However, larger non-banks continue to dominate the lender mix and 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 profitably, while maintaining a prudent capitalisation profile and good credit underwriting standards, would be critical.

The Stable outlook reflects ICRA's expectation that AIHFPL would be able to grow profitably in the affordable housing segment while maintaining its asset quality and a prudent capitalisation profile.

Key rating drivers and their description

Credit strengths

Granular retail portfolio and good growth opportunity in affordable housing 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 86,923 against the AUM of Rs. 1,752.4 crore as on March 31, 2024 (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 March 31, 2024, ~78% of the company's AUM comprised home loans for construction, purchase, resale and renovation with the balance (~22%) 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. 402.6 crore and a managed gearing of 3.8x as on March 31, 2024. Teachers Insurance and Annuity Association of America (TIAA) infused capital of Rs. 75 crore in October 2023, which helped the company increase its AUM to Rs. 1,752.4 crore as on March 31, 2024. 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 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 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 0.97% and the net stage 3 assets at 0.54% as on March 31, 2024 (0.57% and 0.32%, 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 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 14.2% in FY2024 (14.4% in FY2023) because of the high-cost legacy borrowings and the increase in the share of borrowings from non-banking financial companies. Nonetheless, the net interest margin (NIM; managed asset basis) increased to 11.6% in FY2024 from 8.8% in FY2023 on account of the significant rise in upfront income booking from DA transaction. Operating expenses, as a percentage of average managed assets, increased to 11.1% in FY2024 from 9.2% in FY2023 (8.4% in FY2022) on account of continued branch expansion in existing geographies as well as entry into new states. ICRA expects the operating efficiency to improve as the company scales up and the new branches start to break even. Credit costs, as a percentage of average managed assets, have remained negligible (0.3% in FY2024) so far due to the healthy asset quality indicators. However, with some uptick expected on the delinquencies with portfolio seasoning, the credit costs are expected to go up from the current level.

The profitability indicators improved significantly with RoMA of 2.7% in FY2024 compared with 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, with the increasing business scale, and control fresh slippages would be critical for improving the profitability profile and a key rating sensitivity.

Liquidity position: Adequate

AIHFPL's liquidity position is adequate with some negative cumulative gaps in the 6 months-1 year, 1-3 years and 3-5 years maturity buckets as per the ALM profile as on March 31, 2024. For the 12-month period ending March 31, 2024, the company has debt repayments of Rs. 335 crore against which its scheduled inflow from performing advances is Rs. 148 crore. The liquidity is further supported by unencumbered cash and liquid investments of about Rs. 148 crore as on March 31, 2024. The expected capital infusion from investors in FY2025 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, 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, which commenced operations in 2016, 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.

In FY2024, the company reported a profit after tax (PAT) of Rs. 45.9 crore on a total gross asset base of 1,883.0 crore as on March 31, 2024 compared to a PAT of Rs. 16.1 crore in FY2023 on a total gross asset base of Rs. 1,276.5 crore as on March 31, 2023. As on March 31, 2024, the company had a net worth of Rs. 402.6 crore and a managed gearing of 3.8x compared to a net worth of Rs. 287.5 crore and a managed gearing of 3.3x as on March 31, 2023.

Key financial indicators

	FY2021 Audited	FY2022 Audited	FY2023 Audited	FY2024 Audited
Total income	87.5	158.0	241.9	416.8
Profit after tax	(0.6)	12.2	16.1	45.9
Total managed assets	527.1	947.5	1,309.7	2,705.7
Return on managed assets	-0.2%	1.7%	1.4%	2.7%
Reported gearing (times)	5.0	4.5	3.2	3.3
Managed gearing (times)	5.0	4.7	3.3	3.8
Gross stage 3	-	0.3%	0.6%	1.0%
CRAR	24.7%	31.5%	40.6%	29.5%

Source: AIHFPL, ICRA Research; Amount in Rs. crore; All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022	
				Jul 29, 2024	May 07, 2024	Dec 29, 2023	Oct 27, 2023	Dec 06, 2022	Oct 25, 2022	Oct 28, 2021	Aug 20, 2021
1	Non-convertible debenture	Long term	165	[ICRA]BBB+ (Stable)	[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	60	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable); downgraded to [ICRA]D and simultaneously upgraded to [ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3	Non-convertible debenture	Long term	65	[ICRA]BBB+ (Stable)	-	-	-	-	-	-	-

Source: ICRA Research

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 July 18, 2024)

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)
INE0E2307187	**NCD**	Jan-31-2024	11.75%	Jan-31-2027	60.00	[ICRA]BBB+ (Stable)
Yet to be placed	**NCD**	NA	NA	NA	93.09	[ICRA]BBB+ (Stable)

Source: AIHFPL, ICRA Research

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

Corrigendum

Document dated July 29, 2024 is corrected with revisions as detailed below:

Revision: Page 5- Rating history for May 07, 2024 is revised to "[ICRA]BBB+ (Stable); downgraded to [ICRA]D and simultaneously upgraded to [ICRA]BBB+ (Stable)

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