

April 07, 2025

## Aavas Financiers Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term bank lines – NHB refinance	3,375.09	3,385.52	[ICRA]AA (Stable); reaffirmed
Long-term bank lines – Term loan	17.91	7.48	[ICRA]AA (Stable); reaffirmed
Long-term bank lines – Cash credit	5.00	5.00	[ICRA]AA (Stable); reaffirmed
Non-convertible debenture programme	900.00	900.00	[ICRA]AA (Stable); reaffirmed
Commercial paper	50.00	50.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>4,348.00</b>	<b>4,348.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The ratings factor in Aavas Financiers Limited's (Aavas) track record in the affordable housing finance space. The company's assets under management (AUM) increased at a compound annual growth rate (CAGR) of 24% during FY2019-FY2024 and at a moderate pace of 15% (annualised basis) in 9M FY2025, standing at Rs. 19,238 crore as on December 31, 2024. ICRA favourably notes that Aavas' capitalisation level remains healthy along with a strong liquidity position and a diversified funding mix. Although the managed gearing<sup>1</sup> is expected to increase from 4.1x as on December 31, 2024 with incremental business being funded by fresh borrowings, ICRA expects the company to maintain a prudent capitalisation profile over the medium term. The ratings also take into account Aavas' satisfactory profitability, supported by improved operating efficiency and controlled credit costs despite the decline in the net interest margin (NIM).

The ratings consider the company's portfolio vulnerability, given its target borrower profile. Aavas' operations remain focussed on low-and-middle-income self-employed borrowers (60% of the AUM as on December 31, 2024), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. Thus, delinquencies in the softer buckets could remain volatile. While there was a marginal uptick in softer bucket delinquencies in 9M FY2025 in line with past trends with the 1+ days past due (dpd) at 3.9% as on December 31, 2024 compared with 3.1% as on March 31, 2024, the same has remained under control. Further, Aavas has demonstrated good underwriting systems and collection infrastructure over the years. Additionally, losses on default are expected to be limited, considering the secured nature of the portfolio with moderate loan-to-value (LTV) ratios and the low ticket size. Moreover, the assets are largely self-occupied residential properties, thereby supporting the asset quality. The gross stage 3 assets remained stable at 1.1% as on December 31, 2024. The ratings also factor in the limited portfolio seasoning, given the high portfolio growth, and the geographical concentration of the portfolio, though the same is improving. Despite geographical expansion, dependence on the home state of Rajasthan remains high, but declining.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will continue to grow its business volumes while retaining the healthy operational and financial metrics trajectory.

<sup>1</sup> Managed gearing = (Total borrowings + Off-book portfolio)/Net worth

## Key rating drivers and their description

### Credit strengths

**Healthy capitalisation** – Aavas is well capitalised with a managed gearing of 4.1x and a capital-to-risk weighted assets ratio (CRAR) of 45.6% as on December 31, 2024 (4.2x and 44.0%, respectively, as on March 31, 2024). While the leverage is expected to increase from the current level with fresh borrowings funding the incremental business, ICRA expects the company to maintain a prudent capitalisation profile with a steady-state managed gearing of 5-6x over the medium term. In ICRA's opinion, a prudent capitalisation level, the secured nature of the portfolio backed largely by self-occupied residential properties, and low ticket sizes would be the key mitigants against the inherent risks associated with the company's portfolio, given the target borrower profile. Considering the calibrated growth plans, low leverage, and good internal capital generation, ICRA does not expect Aavas to need external capital infusions to meet its growth target in the medium term.

**Demonstrated ability to grow retail business volumes; track record of good asset quality** – Aavas' portfolio has increased over the past five years, driven by the expanded customer base and its foray into new regions and deeper penetration in existing geographies, leading to a CAGR of 24% during FY2019-FY2024. The AUM growth moderated to 15% (annualised basis) in 9M FY2025 and it stood at Rs. 19,238 crore as on December 31, 2024 (Rs. 17,313 crore as on March 31, 2024). As far as the portfolio mix is concerned, the share of individual home loans remained stable at about 69% as on December 31, 2024 followed by micro, small and medium enterprises (MSMEs – 18%; secured by mortgage) and loan against property (LAP)/other mortgage loans (13%). The share of the salaried customer segment stood at 40% as on December 31, 2024.

The gross and net stage 3 stood at 1.1% and 0.8%, respectively, as on December 31, 2024 compared with 0.9% and 0.7%, respectively, as on March 31, 2024. ICRA, however, notes that the company's portfolio remains vulnerable, given its target borrower profile. Hence, delinquencies in the softer buckets could remain volatile. While there was a marginal uptick in softer bucket delinquencies in 9M FY2025 in line with past trends with the 1+ dpd at 3.9% as on December 31, 2024 compared to 3.1% as on March 31, 2024, the same has remained under control. Further, Aavas demonstrated good underwriting systems and collection infrastructure over the years, which helped bring down the 1+ dpd from the peak of 12.7% as on June 30, 2021 (during the Covid-19 pandemic). ICRA notes that the overall provision cover against the loan book stood stable at 0.7% as on December 31, 2024 (0.6% as on March 31, 2024). Losses, in case of default, are expected to be limited, as most of the properties are self-occupied, the company is covered under the SARFAESI Act, and the nature of lending is secured with a moderate LTV ratio at origination.

**Satisfactory profitability trajectory** – Aavas' profitability in 9M FY2025 was supported by higher operating efficiency and controlled credit costs despite the decline in the NIMs. Operating expenses moderated to 2.7% in 9M FY2025 from 3.0% in FY2024 and credit costs remained stable at 0.1%. Notwithstanding the decline in NIMs to 5.6% in 9M FY2025 from 6.0% in FY2024 due to the elevated systemic interest rates, the profitability indicators remained satisfactory with a return on managed assets (RoMA)<sup>2</sup> of 2.7% (2.7% in FY2024).

**Strong liquidity profile with diversified funding mix** – Aavas' liquidity profile is strong with sizeable on-balance sheet liquidity in the form of cash and liquid investments and long-tenor liabilities raised by it with no dependence on short-term commercial paper funding since inception. Further, the company's financial flexibility is good, given its relationships with all the leading banks of the country and All India Financial Institutions (AIFIs). It also has funding support from various multilateral agencies like International Finance Corporation (IFC), British International Investment (BII; formerly known as Commonwealth Development Corporation) and Asian Development Bank (ADB). Moreover, while Aavas is likely to carry relatively lower on-balance sheet liquidity, it is noted that the asset-liability maturity (ALM) profile remains well matched during the normal course of business, aided by the long-tenor liabilities with no dependence on short-term commercial paper funding since inception.

<sup>2</sup> Return on assets (RoA) stood at 3.2% in 9M FY2025 compared to 3.3% in FY2024

Aavas' funding profile remains diversified with sources including borrowings from banks and other financial institutions (FIs; 50% of total borrowings as on December 31, 2024), securitisation and assignment (25%; significant proportion of the portfolio qualifies for priority sector lending, thereby providing an additional funding source), National Housing Bank (NHB) refinance (16%), and non-convertible debentures (NCDs; 9%) while others (including lease liability and interest accrued but not due) had a negligible share. The company's incremental borrowing cost increased in 9M FY2025 due to the elevated systemic interest rates. It raised Rs. 4,622 crore in 9M FY2025 (Rs. 6,145 crore in FY2024) at a weighted average rate of 8.4% (8.1% in FY2024) for a weighted average maturity of 112 months (136 months in FY2024).

### Credit challenges

**Relatively high, albeit improving, geographical concentration** – Aavas commenced lending operations in March 2012 with primary focus on the home state of Rajasthan. While it subsequently expanded its geographical footprint to 14 states/Union Territories (UTs), its dependence on Rajasthan remains relatively high at 33% as on December 31, 2024, but lower than 46% as on March 31, 2018. Although the share of Rajasthan is not expected to reduce significantly in the medium term, the overall geographical diversity is likely to improve with the company gradually expanding and opening new branches in other states. Aavas had 373 branches as on December 31, 2024 spread across Rajasthan, Maharashtra, Gujarat, Madhya Pradesh, Delhi, Uttar Pradesh, Punjab, Haryana, Uttarakhand, Chhattisgarh, Himachal Pradesh, Odisha, Karnataka and Tamil Nadu.

**Exposure to relatively vulnerable borrower profile** – Aavas' operations remain focussed on low-and-middle-income self-employed borrowers (60% of the AUM as on December 31, 2024), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. Hence, delinquencies in the softer buckets could remain volatile. Nevertheless, the losses on default are expected to be limited considering the secured nature of the portfolio, the moderate LTV (~61% of the portfolio had an LTV of less than 60% as on December 31, 2024) and the low ticket size. Moreover, the assets are largely self-occupied residential properties. Also, ICRA draws comfort from Aavas' demonstrated ability to control the asset quality and credit costs, which reflects positively on its underwriting norms and collection infrastructure.

### Environmental and social risks

While financial institutions like Aavas do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which these institutions have an exposure, face business disruption because of physical climate adversities or if they face climate transition risks because of technological, regulatory or customer behaviour changes, the same could translate into credit risks for financial institutions. However, such risk is not material for Aavas as it has a granular portfolio.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as material lapses could be detrimental to their reputation and invite regulatory censure. Aavas has not faced such lapses over the years, which highlights its sensitivity to such risks. The company is seen to be operating responsibly in terms of its business practices with no instances of fines being imposed by regulatory authorities.

### Liquidity position: Strong

Aavas' liquidity profile is strong with sizeable on-balance sheet liquidity in the form of cash and liquid investments of ~Rs. 1,770 crore as on December 31, 2024 (equivalent to ~13% of its on-balance sheet borrowings). This is sufficient compared to the total debt-servicing burden (principal and interest) of ~Rs. 3,104 crore over the next one year, as per the ALM profile as on December 31, 2024. The company is also maintaining off-balance sheet liquidity in the form of undrawn cash credit limits of Rs. 125 crore and documented but unavailed sanctions of Rs. 2,275 crore from banks. As on December 31, 2024, Aavas' ALM reflected scheduled inflows (principal and interest) of Rs. 4,083 crore from performing advances during the next 12 months.

## Rating sensitivities

**Positive factors** – A significant increase in the scale, while maintaining a healthy financial profile and good asset quality over the medium to long term and reducing the geographical concentration, would be a credit positive. Retaining the diversified funding profile with minimal asset-liability mismatches in the near-term buckets, as the company expands its portfolio, would also be crucial for maintaining the credit profile.

**Negative factors** – Pressure on the ratings could arise in case of a significant deterioration in the earnings profile (RoMA of less than 2.5% on sustained basis) or a sustained weakening of the asset quality (90 dpd above 2.0%). Also, a deterioration in the capitalisation profile on a sustained basis or an adverse change in the asset-liability maturity profile will be a credit negative.

## Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-banking Finance Companies<sup>3</sup></a>
Parent/Group support	-
Consolidation/Standalone	Standalone

## About the company

Aavas is a Jaipur (Rajasthan) headquartered housing finance company, which primarily provides housing loans in rural and semi-urban areas. It is present in 13 states and 1 UT, with a network of 373 branches and AUM of Rs. 19,238 crore on December 31, 2024.

Aavas was incorporated as a subsidiary of Au Financiers (India) Limited {now Au Small Finance Bank Limited (AuSFB)} in February 2011, and it formally began its operations in March 2012. In June 2016, AuSFB sold its stake in Aavas to private equity (PE) investors – Kedaara Capital and Partners Group – to meet the Reserve Bank of India's (RBI) criteria for conversion to a small finance bank. Aavas launched an initial public offering (IPO) in FY2019 and its equity shares got listed on the stock exchanges on October 8, 2018. The total issue size was Rs. 1,734 crore, of which ~Rs. 360 crore was raised for business operations while the rest was utilised to pay off the existing shareholders. The company's shareholding, as on December 31, 2024, was: Kedaara Capital (16%), Partners Group (11%), foreign institutional investor (FIIs; 35%), domestic institutional investors (DIIs; 24%), the management team (2%) and others (around 12%). In August 2024, the promoter group i.e. Kedaara Capital and Partners Group entered into a Share Sale Agreement (SPAs) to sell their entire stake to Aquilo House Pte. Ltd., which belongs to CVC Capital Partners group (Acquirer). Subsequently, the Acquirer announced through its public announcement dated August 10, 2024 an open offer for acquisition of additional stake up to 26.00% from the public shareholders of Aavas. The aforesaid transaction would be subject to various regulatory and lender approvals. Post the consummation of the SPAs and completion of the open offer, Aquilo House Pte. Ltd. shall acquire control and shall be categorized as the new promoters of Aavas.

Aavas reported a profit after tax (PAT) of Rs. 420 crore in 9M FY2025 on a managed asset base<sup>4</sup> of Rs. 21,924 crore as on December 31, 2024 compared with Rs. 491 crore in FY2024 on a managed asset base of Rs. 19,933 crore as on March 31, 2024. The company had a net worth of Rs. 4,197 crore and CRAR of 45.6% as on December 31, 2024 (Rs. 3,773 crore and 44.0%,

<sup>3</sup> For rating a non-banking financial company (NBFC), ICRA evaluates its business risk, ownership, management risk and financial risk and uses this to assess the level and stability of its future financial performance in likely scenarios, as required. The ratings are determined on a going concern basis rather than on a mere assessment of the assets and debt levels on a particular date

<sup>4</sup> Managed assets = Gross assets (including credit provisions on loans) + Off-book portfolio

respectively, as on March 31, 2024). The gross and net stage 3 stood at 1.1% and 0.8%, respectively, as on December 31, 2024 (0.9% and 0.7%, respectively, as on March 31, 2024).

### Key financial indicators

	FY2023	FY2024	9M FY2025
	Audited	Audited	Limited review
<b>Total income</b>	1,610	2,020	1,721
<b>PAT</b>	430	491	420
<b>Total managed assets</b>	16,182	19,933	21,924
<b>Return on average managed assets</b>	2.9%	2.7%	2.7%
<b>Managed gearing (times)</b>	3.9	4.2	4.1
<b>Gross stage 3</b>	0.9%	0.9%	1.1%
<b>CRAR</b>	47.0%	44.0%	45.6%

Source: Aavas' financial results, ICRA Research; Note: Amount in Rs. crore; All figures and ratios are as per ICRA's calculations/adjustments

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Current (FY2026)			Chronology of rating history for the past 3 years						
Instrument	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		
			07-Apr- 2025	Date	Rating	Date	Rating	Date	Rating
<b>Commercial paper</b>	Short term	50.00	[ICRA]A1+	25-Jun-2024	[ICRA]A1+	08-JAN-2024	[ICRA]A1+	29-JUN-2022	[ICRA]A1+
				-	-	-	-	22-AUG-2022	[ICRA]A1+
				-	-	-	-	22-AUG-2022	[ICRA]A1+
				-	-	-	-	06-SEP-2022	[ICRA]A1+
				-	-	-	-	24-FEB-2023	[ICRA]A1+
<b>NCD</b>	Long term	900.00	[ICRA]AA (Stable)	25-JUN-2024	[ICRA]AA (Stable)	08-JAN-2024	[ICRA]AA (Stable)	29-JUN-2022	[ICRA]AA (Stable)
				-	-	-	-	22-AUG-2022	[ICRA]AA (Stable)
				-	-	-	-	22-AUG-2022	[ICRA]AA (Stable)
				-	-	-	-	06-SEP-2022	[ICRA]AA (Stable)
				-	-	-	-	24-FEB-2023	[ICRA]AA (Stable)
<b>Long term – Fund-based cash credit</b>	Long term	5.00	[ICRA]AA (Stable)	25-JUN-2024	[ICRA]AA (Stable)	08-JAN-2024	[ICRA]AA (Stable)	29-JUN-2022	[ICRA]AA (Stable)
				-	-	-	-	22-AUG-2022	[ICRA]AA (Stable)
				-	-	-	-	22-AUG-2022	[ICRA]AA (Stable)
				-	-	-	-	06-SEP-2022	[ICRA]AA (Stable)
				-	-	-	-	24-FEB-2023	[ICRA]AA (Stable)
<b>Long term – Fund-based term loan</b>	Long term	7.48	[ICRA]AA (Stable)	25-JUN-2024	[ICRA]AA (Stable)	08-JAN-2024	[ICRA]AA (Stable)	29-JUN-2022	[ICRA]AA (Stable)
				-	-	-	-	22-AUG-2022	[ICRA]AA (Stable)
				-	-	-	-	22-AUG-2022	[ICRA]AA (Stable)
				-	-	-	-	22-AUG-2022	[ICRA]AA (Stable)
				-	-	-	-	06-SEP-2022	[ICRA]AA (Stable)
<b>Long term – Fund-based</b>	Long term	3,385.52	[ICRA]AA (Stable)	25-JUN-2024	[ICRA]AA (Stable)	08-JAN-2024	[ICRA]AA (Stable)	06-SEP-2022	[ICRA]AA (Stable)
				-	-	-	-	24-FEB-2023	[ICRA]AA (Stable)

Current (FY2026)			Chronology of rating history for the past 3 years						
Instrument	Type	Amount rated (Rs. crore)	07-Apr- 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
NHB refinance				-	-	-	-	24-FEB-2023	[ICRA]AA (Stable)

Source: ICRA Research

## Complexity level of the rated instruments

Instrument	Complexity indicator
Commercial paper	Very Simple
NCD programme	Simple
Fund-based NHB refinance	Simple
Fund-based term loan	Simple
Fund-based cash credit	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<sup>^</sup>**

ISIN	Instrument name	Date of issuance/ Sanction	Coupon rate	Maturity date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA*	Commercial paper	NA	NA	NA	50.00	[ICRA]A1+
INE216P07209	NCD	Dec-31-2020	Repo rate linked	Dec-31-2025	100.00	[ICRA]AA (Stable)
INE216P07233	NCD	Jul-20-2023	Repo rate linked	Jul-20-2028	150.00	[ICRA]AA (Stable)
INE216P07241	NCD	Oct-29-2024	6 months MIBOR OIS	Oct-29-2029	630.00	[ICRA]AA (Stable)
NA*	NCD	NA	NA	NA	20.00	[ICRA]AA (Stable)
NA	Cash credit - 1	Aug-04-2014	NA	NA	5.00	[ICRA]AA (Stable)
NA	Term loan - 1	Sep-27-2018	NA	Nov-01-2028	7.48	[ICRA]AA (Stable)
NA	NHB refinance	2015-2023	NA	NA	2,735.09	[ICRA]AA (Stable)
NA*	NHB refinance	NA	NA	NA	650.43	[ICRA]AA (Stable)

Source: Aavas, ICRA Research; <sup>^</sup> As on February 28, 2025; \* Proposed/yet to be placed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Not applicable

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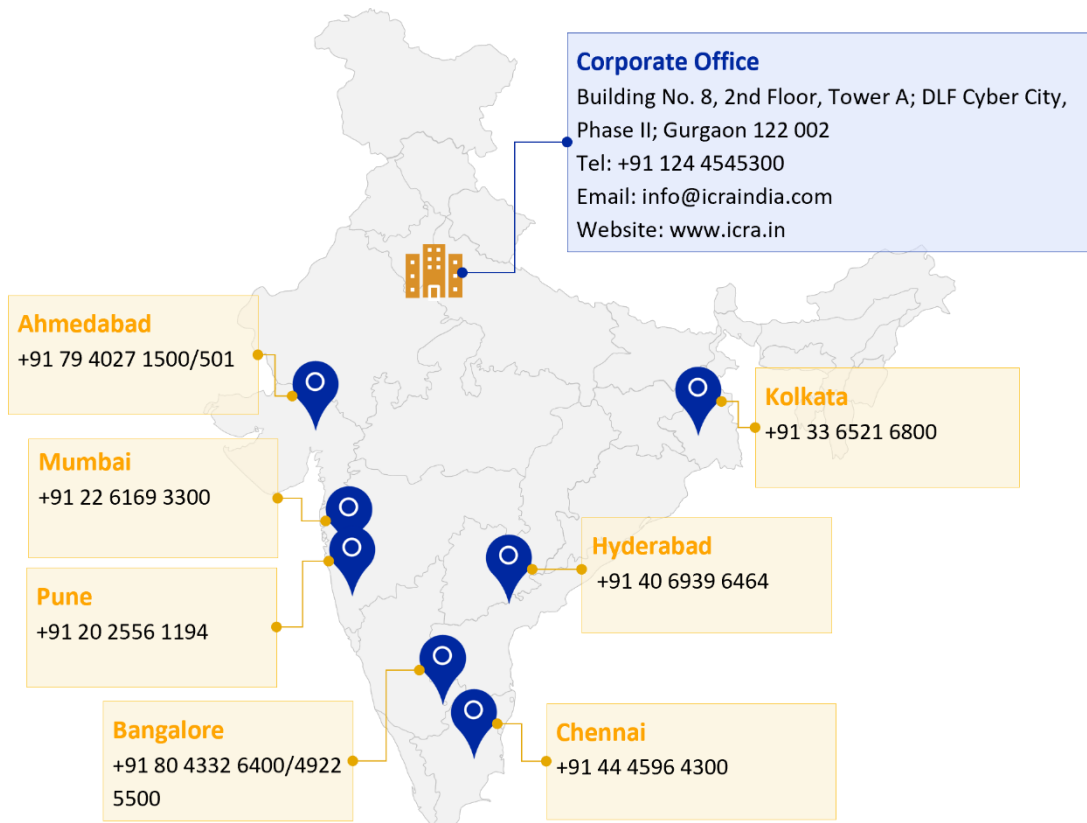
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### Branches



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