

August 24, 2020

Aviom India Housing Finance Pvt Ltd: [ICRA]BBB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	5.00	[ICRA]BBB- (Stable); Assigned
Total	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 (average ticket size of Rs. 2.7 lakh) and is secured against self-occupied residential properties with a high security cover (average loan-to-value (LTV) ratio of 35-40%). The rating also factors in AIHFPL's adequate capitalisation profile for the current scale of operations supported by the recent capital infusion of Rs. 60 crore in FY2020 by two private equity impact investment firms. ICRA has also taken note of the company's improving profitability indicators (RoE of ~8.8% in FY2020 compared to ~6.9% in FY2019) with its increasing scale and low credit costs. However, the same remains constrained by the high operating expenses with AIHFPL still being in the expansion phase and relatively nascent stage of operations.

The rating is also constrained by the company's limited track record of operations, relatively small scale of business and the low seasoning of its loan book with its ability to maintain healthy asset quality indicators across economic cycles yet to be established. The rating is further constrained by the high portfolio vulnerability due to the inherent riskiness associated with the target borrower profile (as reflected by the lending rates of 18-21%) along with the high geographical concentration of the loan book (~76% in Rajasthan as on June 30, 2020). Nevertheless, the risk is somewhat mitigated to an extent by the low LTV ratios, which will limit the ultimate loss in case of defaults. ICRA also notes that the company's borrowing mix is currently concentrated largely towards non-banking financial companies/financial institutions (NBFCs/FIs; ~61% of the total borrowings as on March 31, 2020), though there has been some improvement in the current fiscal with the company getting sanctions through the banking channel and National Housing Bank (NHB).

Nevertheless, AIHFPL would need to raise both debt and equity in a timely manner to grow as per its business plans. Overall, the company's ability to improve its scale of operations, while maintaining a prudent capitalisation profile and controlling the asset quality, would be a key monitorable.

Key rating drivers and their description

Credit strengths

Granular retail portfolio – AIHFPL operates in the white space between traditional housing finance and microfinance, reflected by its relatively small ticket sizes in the range of Rs. 1.5-3.5 lakh. This has resulted in a granular loan book with the number of borrowers at 10,554 as on June 30, 2020 and all loans are sanctioned against self-occupied residential properties. Also, given the low mortgage penetration in Indian markets, the growth potential remains high. However, there could be a moderation in demand in the short term, considering the challenges in the operating environment.

Adequate capitalisation profile – AIHFPL's capitalisation profile remains adequate for the current scale of operations with a reported net worth of ~Rs. 89 crore and a gearing of 2.3 times as on March 31, 2020. This was supported by the

capital infusion of Rs. 60 crore in the form of compulsorily convertible preference shares (CCPS) by private equity impact investment firms – Gojo & Company Inc. (Rs. 45 crore) and C4D Partners (Rs. 15 crore) – in FY2020. With incremental business being funded out of fresh borrowings, the gearing is expected to increase from the current level and is expected to peak at around 4 times in the medium term. Nevertheless, the company would need to raise fresh capital on a continuous basis to maintain prudent capitalisation while growing as per its business plans.

Improving profitability indicators – AIHFPL's average yield on advances remained range-bound in FY2020 at ~19% with the net interest margin (NIM) declining marginally to ~10.4% in FY2020 from ~11.8% in FY2019 due to a slight increase in the cost of funds. The operating costs in relation to the average assets declined to ~8.0% in FY2020 from ~11.1% in FY2019 as the scale of operations improved. However, the same remains high. Given the small ticket size of the loans and the operationally intensive nature of the operations, AIHFPL's operating ratios are expected to remain elevated over the medium term, which, in turn, could moderate the return indicators. The company reported an RoA and RoE of ~2.2% and ~8.8%, respectively, in FY2020 compared to ~1.5% and ~6.9%, respectively, in FY2019. Also, so far, the credit costs have remained negligible due to the healthy asset quality indicators. However, there could be some increase in delinquencies as the portfolio seasons and also because of the impact of the Covid-19 pandemic on the cash flows of the borrowers. Overall, AIHFPL's ability to improve the operating efficiencies and control fresh slippages would be critical for improving the profitability profile going forward.

Credit challenges

Limited track record of operations and low loan book seasoning – AIHFPL started operations in H2 FY2017. It provides secured loans for home improvement, home extension, construction, sanitation and loan against property (LAP) to borrowers with informal sources of income in semi-urban and urban areas. The company operates at low LTVs (35-40%) and has adequate credit underwriting processes. So far, AIHFPL has reported healthy asset quality indicators with nil NPAs as on June 30, 2020, albeit on a low seasoned book, with the average tenure of the loans being 7-10 years and the majority of the portfolio outstanding being 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. Also, given its expansion plans, AIHFPL's ability to maintain the underwriting standards, train the manpower and improve the collection processes, in line with the growth in the business, would be critical for maintaining its credit profile.

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 shocks. While the company tries to mitigate the risk by making all income-earning members in the family loan co-applicants, having adequate insurance coverage, and making women the primary applicants, the delinquencies in this segment could remain volatile, especially in the softer buckets. At the same time, given the low LTVs on the loans, the ultimate loss in the case of defaults could be lower though the company's ability to repossess and sell properties is yet to be established.

Moderate scale of operations with high geographic concentration – AIHFPL's assets under management (AUM) stood at ~Rs. 245 crore as on June 30, 2020, comprising housing loans (67%) and LAP (33%). Though the portfolio witnessed a high growth of ~89% in FY2020, the scale of operations remains moderate with the company operating through 25 branches spread across 3 states i.e. Rajasthan (76%), Madhya Pradesh (20%) and Haryana (4%). This has led to relatively high geographical concentration. However, going forward, the geographical diversity is expected to improve, albeit slowly, as the company plans to expand in other states as well in the near term.

Ability to diversify borrowing mix – AIHFPL's borrowing mix remains concentrated with a large dependency on NBFCs/FIs for funding (~61% as on March 31, 2020) with small finance banks accounting for the rest. Though the

borrowing mix in terms of number of lending partners is diversified (~18 lending partners as on March 31, 2020), the company's ability to tap the debt capital markets and to 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 recently sanctioned limits from NHB worth Rs. 11.5 crore 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.

Liquidity position: Adequate

AIHFPL's liquidity position remains adequate, supported by the long tenure of its borrowings and a low gearing. There are some negative cumulative mismatches in the medium-term maturity buckets (after adjusting for interest income and expenses), with the expected debt repayments in the next one year at ~Rs. 55 crore against expected inflows of ~Rs. 14 crore as on June 30, 2020. However, the company had unencumbered cash and liquid investments of Rs. 37 crore as well as unutilised sanctioned lines of credit worth Rs. 40 crore as on June 30, 2020, which supports the liquidity profile. Also, the company has received additional sanctioned lines of credit from lenders worth Rs. 25 crore in July 2020, which further supplements the liquidity position.

Rating sensitivities

Positive triggers – 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 triggers – A deterioration in the asset quality indicators resulting in pressure on the profitability indicators, could lead to a rating downgrade.

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, 2020, AIHFPL had 25 branches spread across Rajasthan (76% of AUM), Madhya Pradesh (20%) and Haryana (4%).

In FY2020, the company reported a profit after tax (PAT) of Rs. 5.0 crore on a total asset base of Rs. 307.1 crore as on March 31, 2020 compared to a PAT of Rs. 1.4 crore in FY2019 on a total asset base of Rs. 154.0 crore as on March 31, 2019. As on March 31, 2020, its net worth stood at Rs. 89.1 crore with a gearing of 2.3 times.

Key financial indicators

	FY2019 Audited	FY2020 Provisional
Profit after tax	1.45	5.01
Net worth (incl. CCPS)	25.43	89.09
AUM	127.96	242.38
Total assets	154.03	307.11
Return on average assets	1.45%	2.17%
Return on average equity	6.94%	8.76%
Gearing (times)	4.85	2.34
CRAR %	26.26%	50.21%
GNPA%	Nil	Nil
NNPA%	Nil	Nil
NNPA/Net worth %	Nil	Nil

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
	Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
1 NCD	Long Term	5.00*	0.00	24-Aug-20 [ICRA]BBB- (Stable)	-	-	-

Source: ICRA research; Amount in Rs. crore; Yet to be placed

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	NCD	NA	NA	NA	5.00	[ICRA]BBB-(Stable)

Source: ICRA research

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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