

October 28, 2021

## Aviom India Housing Finance Pvt Ltd: Rating upgraded; [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 Programme	0.00	30.00	[ICRA]BBB (Stable); assigned
Non-convertible Debenture Programme	5.00	5.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
<b>Total</b>	<b>5.00</b>	<b>35.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating upgrade factors in Aviom India Housing Finance Pvt Ltd's (AIHFPL) ability to improve the scale of operations, with assets under management (AUM) of Rs. 542 crore as on September 30, 2021, while keeping the asset quality indicators under control. The rating upgrade also takes into consideration the company's increased geographical presence and improved capitalisation profile supported by the recent equity raise of Rs. 59 crore from Sabre Partners (a private equity fund). This led to an increase in the net worth to ~Rs. 150 crore while the gearing stood at 3.5 times in October 2021. ICRA believes that this capital raise would support the company's portfolio growth in the near term. Nevertheless, AIHFPL would need to continuously raise capital over the medium term, given the modest internal capital generation and high growth plans. Also, in the past, the company's capital raise plans were delayed on account of the Covid-19 pandemic and consequently the gearing increased significantly to 4.7 times as on March 31, 2021 from 2.4 times as on March 31, 2020. Going forward, the company's ability to maintain prudent capitalisation levels would be a key rating sensitivity. The rating also factors in AIHFPL's granular loan book, which has relatively small ticket sizes (average ticket size of Rs. 2.5-3 lakh). The rating also factors in the company's high growth potential in affordable housing, given the low credit penetration in this segment.

The rating is, however, constrained by the relative scale of operations, modest profitability and portfolio vulnerability reflected by the marginal target borrower profile comprising low-and-middle-income individuals/families with undocumented and informal sources of income. While the company has been able to maintain the asset quality indicators so far with nil gross non-performing assets (GNPAs) as on September 30, 2021, this is on a relatively less-seasoned loan book coupled with high growth. Hence, AIHFPL's ability to maintain healthy asset quality indicators across economic cycles is yet to be established. However, the risk is somewhat mitigated by the secured nature of the loans and the low loan-to-value (LTV) ratios, which will limit the ultimate losses in case of defaults.

AIHFPL's profitability indicators (return on assets (RoA) of 0.5% in FY2021 and 0.8% in H1 FY2022) are subdued owing to the high operating expenses incurred during its rapid geographical expansion across 13 states in FY2021 with the company being in expansion mode.

ICRA also notes that the diversification in AIHFPL's borrowing mix has improved to some extent in H1 FY2022 with 24% of the total borrowing comprising non-convertible debentures (NCDs) as on September 30, 2021, 46% comprising loans from non-banking financial companies (NBFCs)/financial institutions (FIs) and banks accounting for the rest. While funding tie-ups have increased over the last fiscal and the borrowing mix is diversified in terms of the number of lenders, 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, 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 opportunities 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 22,000+ against the AUM of Rs. 542 crore as on September 30, 2021, with almost all the loans sanctioned against self-occupied residential properties.

As on September 30, 2021, ~64% of the company's AUM comprised home loans for construction, purchase, resale and renovation with the balance comprising loan against property (LAP). Also, given the low mortgage penetration in Indian markets, the growth potential remains high. However, AIHFPL's ability to tap demand would remain a key monitorable, given the challenging operating environment and the uncertainty regarding further lockdowns across states due to the pandemic.

### Credit challenges

**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 economic shocks. The inherent risk associated with the target borrower profile is also reflected by the high lending rates (21-27%).

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 and given the tough operating environment, which could impact borrower cash flows. At the same time, given the low LTVs on the loans, the ultimate losses in case of default could be lower, AIHFPL's ability to repossess and sell properties is yet to be established.

**Untested asset quality indicators** – AIHFPL reported healthy asset quality indicators with nil GNPA's as on September 30, 2021, albeit on a less-seasoned loan 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, 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.

Delinquencies increased in the softer buckets in Q1 FY2022 as collections dropped by ~10% due to the lockdown imposed in certain regions on account of the second wave of the pandemic. The collections remained at similar levels in Q2 FY2022 as well. Fresh slippages are expected to increase over the medium term, given the marginal target borrower profile and the limited portfolio seasoning due to rapid expansion in a short period of time. Nevertheless, AIHFPL operates at low LTVs (~35%) and has adequate credit underwriting processes. The company's 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 profitability indicators** – AIHFPL's average yield on advances stood at 21.2% (excluding processing fee) in H1 FY2022 with the net interest margin (NIM) remaining high at 10-12% over the past few fiscals, supported by the high yields. However, the operating costs remained high at 10.3% in relation to the average total assets (ATA) in H1 FY2022 (11.3% in FY2021) due to the rapid expansion with new branches being set up across 10 new states during the year and the high employee costs. This resulted in subdued profitability indicators with the company reporting an RoA and a return on equity (RoE) of 0.8% and 4.6%, respectively, in H1 FY2022 (0.5% and 2.2%, respectively, in FY2021).

The credit costs have remained negligible (0.2% of ATA in H1 FY2022) so far due to the healthy asset quality indicators. However, there could be some increase in delinquencies as the portfolio seasons and also because of the uncertainty regarding the imposition of additional lockdowns due to the pandemic, which, in turn, could impact the cash flows of the borrowers. Overall, AIHFPL's ability to improve its operating efficiency and control fresh slippages would be critical for improving the profitability profile going forward.

**Diversification in borrowing mix and prudent capitalisation important for growth** – The diversification in AIHFPL’s borrowing mix improved to some extent in H1 FY2022 with the company tapping the debt markets as well. As on September 30, 2021, 24% of the total borrowing comprised NCDs, while loans from NBFCs/FIs comprised 46% (59% as on March 31, 2021) and banks accounted for the rest. The borrowing mix is also diversified in terms of the number of lending partners (about 37 lending partners as on September 30, 2021). However, the company’s ability to continue to tap the debt capital markets and 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 company’s sanctioned limits from National Housing Bank (NHB) 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.

AIHFPL’s geographical presence has increased significantly with the number of branches increasing to 105, spread across 13 states as on September 30, 2021, from 25 branches spread across 3 states as on June 30, 2020. The AUM grew by 89% YoY to Rs. 542 crore as on September 30, 2021 from Rs. 286 crore as on September 30, 2020. The growth was funded through fresh borrowings, as the company’s capital-raising plans were delayed due to the pandemic. Consequently, the gearing increased to 4.7 times as on March 31, 2021 from 2.4 times as on March 31, 2020. However, the recent equity infusion of Rs. 59 crore by Sabre Partners in September-October 2021 has stabilised the company’s capitalisation profile and would support the portfolio growth in the near term.

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, ICRA notes that the company plans to raise further capital by the end of the current fiscal. The ability to raise capital while continuing to grow as per its business plans would be a rating sensitivity.

## Liquidity position: Adequate

AIHFPL’s liquidity position is adequate with some negative cumulative mismatches in the medium-term maturity buckets, with the expected debt repayments (including interest) in the next one year at ~Rs. 216 crore against expected inflows from advances (including interest) of ~Rs. 157 crore as on September 30, 2021. However, the liquidity is supported by unencumbered cash and bank balances of Rs. 68 crore as on September 30, 2021. The company also raised equity of Rs. 39 crore from Sabre Partners in October 2021 (Rs. 20 crore raised in September 2021), which 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 6 times on a sustained basis would also be a credit negative.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA’s Credit Rating Methodology for Housing Finance Companies</a>
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 LAP to families from the informal sector with a strong focus on women, thereby promoting women empowerment.

As on September 30, 2021, AIHFPL had 105 branches spread across 13 states, including Rajasthan (41% of AUM), Madhya Pradesh (25%), Uttar Pradesh (9%), Karnataka (9%), Haryana (5%) and others (11%). As on September 30, 2021, ~64% of the AUM comprised home loans for construction, purchase, resale and renovation and the balance ~36% comprised LAP. The total disbursements in FY2021 stood at Rs. 246 crore compared to Rs. 130 crore in FY2020. In H1 FY2022, the disbursements stood at Rs. 105 crore.

In FY2021, AIHFPL reported a profit after tax (PAT) of Rs. 1.9 crore on a total asset base of Rs. 532.3 crore as on March 31, 2021 compared to a PAT of Rs. 2.5 crore in FY2020 on a total asset base of Rs. 304.4 crore as on March 31, 2020. In H1 FY2022, the company reported a PAT of Rs. 2.3 crore on a total asset base of Rs. 648.1 crore (based on provisional financials). As on September 30, 2021, the company's net worth stood at Rs. 111.0 crore with a gearing of 4.6 times. The net worth increased to ~Rs. 150 crore in October 2021 supported by a further equity infusion of Rs. 39 crore by Sabre Partners (Rs. 20 crore infused in September 2021).

## Key financial indicators

AIHFPL	FY2020	FY2021	H1 FY2022
	Audited	Audited	Provisional
Profit after tax (Rs. crore)	2.5	1.9	2.3
Net worth <sup>1</sup> (Rs. crore)	86.7	88.7	111.0*
Loan book (Rs. crore)	242.4	462.7	542.3
Total assets (Rs. crore)	304.4	532.3	648.1
Return on assets (%)	1.1%	0.5%	0.8%
Return on net worth (%)	4.4%	2.2%	4.6%
Gearing (times)	2.4	4.7	4.6
Gross NPA (%)	Nil	Nil	Nil
Net NPA (%)	Nil	Nil	Nil
Solvency (Net NPA/Net worth)	Nil	Nil	Nil
CRAR (%)	49.3%	23.8%	27.5%

*Source: AIHFPL, ICRA Research; All ratios as per ICRA calculations*

*\*Net worth increased to Rs. 150 crore with additional equity infusion of Rs. 39 crore in October 2021*

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

## Any other information: None

<sup>1</sup> Including Compulsorily Convertible Preference Shares (CCPS)

## Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				Oct 28, 2021	Aug 20, 2021	Aug 24, 2020	-	-
Non-convertible Debenture Programme	Long Term	5.00	5.00	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
Non-convertible Debenture Programme	Long Term	30.00	0.00	[ICRA]BBB (Stable)	-	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture Programme	Very 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: [www.icra.in](http://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
INE0E2307013	NCD	Aug 25, 2020	13.90	Aug 25, 2023	5.00	[ICRA]BBB (Stable)
NA	NCD	NA	NA	NA	30.00*	[ICRA]BBB (Stable)

Source: AIHFPL; \*Yet to be placed

**Annexure-2: List of entities considered for consolidated analysis – Not applicable**

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### Branches



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