June 21, 2023

Aadhar Housing Finance Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities	250.00	1,250.00	[ICRA]AA(Stable); reaffirmed/assigned for enhanced amount
Non-convertible debentures	624.00	624.00	[ICRA]AA(Stable); reaffirmed
Subordinated debt	66.00	66.00	[ICRA]AA(Stable); reaffirmed
Commercial paper programme	600.00	600.00	[ICRA]A1+; reaffirmed
Total	**1,540.00**	**2,540.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Aadhar Housing Finance Limited's (AHFL) healthy scale and geographically diversified operations. As on March 31, 2023, the company had assets under management (AUM) of Rs. 17,223 crore spread across 479 branches and offices in more than 15,000 locations in 20 states/Union Territories (UTs). Further, its operations are focused on the low-income housing segment with home loans comprising 78% of the AUM as on March 31, 2023 (82% as on March 31, 2022). Given the low penetration level and the Government of India's (GoI) thrust on the segment, there are good growth opportunities for small ticket size home loans. However, competition has intensified with the entry of new players and the company's ability to manage the pressure on its business growth and profitability will remain a key monitorable. The ratings also consider AHFL's experienced management team and adequate internal controls and systems. The ratings also factor in the company's fairly diversified funding profile, which comprised loans from banks (42%), refinance from National Housing Bank (NHB; 19%), non-convertible debentures and subordinated debt (NCDs; 17%), assignment (21%) and others as on March 31, 2023.

Post the equity infusion in FY2020, AHFL's capitalisation profile improved significantly and the gearing (reported)[1] remained low at 3.3 times as on March 31, 2023. Over the medium term, AHFL plans to operate at a net leverage level of 5-6 times. While ICRA takes note that the company has deferred its plans to raise equity capital through an initial public offering (IPO) citing unstable market conditions, the company has healthy internal accruals to support its envisaged growth plans over the medium term.

AHFL's profitability profile has been improving gradually, aided by higher margins and low credit costs. It reported a net profit of Rs. 545 crore in FY2023, translating into a return of 2.9% on average managed assets (AMA[2]) and 15.9% on average net worth (Rs. 445 crore, 2.6% and 15.2%, respectively in FY2022). The asset quality indicators remained comfortable with gross non-performing assets (NPAs) of 1.17% and net NPAs of 0.77% as on March 31, 2023 (1.52% and 1.07%, respectively, as on March 31, 2022). However, it remains exposed to volatility in the asset quality, given the risk associated with the target borrower segment. Going forward, company's ability to manage the pressure on margins given the increasing competition and interest rates, and control credit costs will be important for maintaining its credit profile.

[1] Gearing (reported) = (Total on-book borrowings + Interest accrued on borrowings) / Net worth

[2] Average of opening and closing total managed assets of the fiscal year; managed assets include direct assignment transactions and are grossed up by impairment allowance

Key rating drivers and their description

Credit strengths

Established track record and geographically diversified operations – AHFL is the largest independent low-income housing finance company in India with an AUM of Rs. 17,223 crore as on March 31, 2023, reporting a 5-year CAGR[3] of 17%. The company continues to scale up its operations and reported an increase of 17% in its AUM in FY2023. As on March 31, 2023, 78% of the company's AUM comprised home loans secured largely by self-occupied residential properties. With around 86% of its AUM comprising ticket sizes up to Rs. 20 lakh as on March 31, 2023, AHFL is well placed to tap the increasing demand in the low-income housing segment.

AHFL's operations are geographically diversified and spread across more than 15,000 locations in 20 states/UTs through 479 branches and offices as on March 31, 2023. The share of top 3 states remained stable at 41% of its portfolio as on March 31, 2023. ICRA expects the company to continue growing its portfolio at a healthy pace of 20-25% over the medium term while further improving the geographical diversification of its operations. However, given the presence of new entrants and the competitive landscape, AHFL's ability to manage the pressure on its margins will remain a key monitorable.

Comfortable capitalisation profile – Following the majority stake purchase by BCP Topco VII Pte Ltd, the investor infused Rs. 1,300 crore of equity capital in the company in FY2020 (Rs. 800 crore in June 2019 and Rs. 500 crore in March 2020). Following this, AHFL's capitalisation profile improved significantly, and the gearing (reported) remained low at 3.3 times as on March 31, 2023 (managed gearing[4] of 4.2 times). AHFL was carrying sizeable on-book liquidity (~12% of total assets) as on March 31, 2023, adjusting for which the net gearing was much lower. Over the medium term, AHFL plans to operate at a net leverage level of 5-6 times. While ICRA takes note that the company has deferred its plans to raise equity capital through an IPO citing unstable market conditions, the company has healthy internal accruals to support its envisaged growth plans while maintaining prudent capitalisation levels.

Fairly diversified funding profile – AHFL's funding profile is fairly diversified and comprised loans from banks (42%), refinance from NHB (19%), NCDs (17%), assignment (21%) and others as on March 31, 2023. There were no commercial papers outstanding as on March 31, 2023. In terms of fund raising, post the change in ownership, Aadhar Housing Finance has been able to raise funds regularly from diversified funding sources, including relatively low-cost funds from NHB.

Credit challenges

Maintaining profitability given the increasing competition – Despite the systemic hardening of interest rates, the cost of average interest-bearing funds remains low on the back of the increasing share of low-cost funding from NHB. ICRA expects the cost of funds to increase in the current fiscal. It was reported at 7.0% in FY2023 vis-à-vis 7.1% in FY2022. With the increasing share of the relatively higher-yielding non-home loan portfolio and the increase in lending rates, the company has been able to protect its lending spreads. Consequently, the net interest margins (including income from assignment) improved to 6.1% of AMA in FY2023 from 5.3% in FY2022.

Operating expenses grew to 2.3% of AMA in FY2023 from 1.9% in FY2022, with the increase in employee and administrative expenses. The company continues to open new branches and hire personnel to support its envisaged growth plans. The credit costs increased but remained low at 0.3% of AMA in FY2023 compared to 0.3% of AMA in FY2022. AHFL reported a net profit of Rs. 545 crore in FY2023, translating into a return of 2.9% on AMA and 15.9% on average net worth (Rs. 445 crore, 2.6% and 15.2%, respectively in FY2022). With the higher margins and low credit costs, AHFL's profitability profile has been improving. Nevertheless, its ability to sustain its margins given the increasing competition and high interest rates and control the fresh slippages and hence credit costs remains a monitorable.

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[3] *Compound annual growth rate*

[4] *Gearing (managed) = (Total on-book borrowings + Interest accrued on borrowings + Assigned portfolio) / Net worth*

Relatively vulnerable borrower profile keeps asset quality monitorable – The company's portfolio is quite granular with no exposure to the wholesale segment. Further, good underwriting norms and portfolio management mechanisms have kept the asset quality comfortable over the years. AHFL reported gross NPAs of 1.17% and net NPAs of 0.77% as on March 31, 2023 (1.52% and net NPAs of 1.07% as on March 31, 2022). However, it had restructured loans under Resolution Framework 1.0 & 2.0 for Covid-19-related stress and had a standard restructured portfolio of 2.2% on its balance sheet as on March 31, 2023. Nevertheless, the company has started collecting EMIs[5] from such standard restructured loan customers.

Further, AHFL mainly lends to borrowers in the low-income segment, which is more vulnerable to income shocks. Given the pace of growth and the relatively riskier borrower profile of the low-and-assessed-income segments, the asset quality indicators could exhibit more volatility. While the company has a good credit appraisal mechanism, it remains exposed to the volatility in the asset quality, given the risk associated with the target borrower segment. Going forward, AHFL's ability to maintain the asset quality as it scales up its operations will be important for its credit profile.

Liquidity position: Strong

The company's liquidity profile is strong, given the on-book liquidity being maintained by the company and its demonstrated ability to raise funds. It had Rs. 2,326 crore of free cash, bank balances and liquid investments as on March 31, 2023, which is sufficient to meet at least 6-months' principal debt repayments. The presence of sanctioned unutilised funding lines supports its liquidity profile further. Liquidity coverage ratio was reported at 152.9% for the quarter ended March 31, 2023 (161.8% for the quarter ended September 30, 2022), which was well above the regulatory requirements.

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 would be a credit positive. Retaining the fairly 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/improving the credit profile.

Negative factors – Pressure on the company's ratings could arise if there is a deterioration in the asset quality with the 90+ days past due (dpd) exceeding 2.0%, thereby affecting the profitability with the return on AMA falling below 2.5% on a sustained basis. A sustained deterioration in the capitalisation profile or a stretched liquidity position could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Aadhar Housing Finance Limited was set up in 1990 to provide housing loans in the lower-ticket size segment. As on March 31, 2023, the Blackstone Group, through its fund BCP Topco VII Pte Limited, had a 98.7% stake in the company. At present, AHFL focuses on the lower-and-middle-income segment and provides home loans and loan against property. As on March 31, 2023, the company was present in 20 states/UTs through a network of 469 branches and offices while managing a portfolio of Rs. 17,223 crore.

[5] *Equated monthly instalments*

Key financial indicators (audited)

Aadhar Housing Finance Limited	FY2021	FY2022	FY2023*
As per	Ind-AS	Ind-AS	Ind-AS
Total income	1,550	1,693	1,994
Profit after tax	340	445	545
Net worth	2,693	3,145	3,696
Gross AUM	13,327	14,778	17,223
Total managed assets	16,322	17,274	20,081
Return on average managed assets	2.2%	2.6%	2.9%
Return on average net worth	13.5%	15.2%	15.9%
Gearing (reported; times)	3.9	3.4	3.3
Gross NPA	1.21%	1.52%	1.17%
Net NPA	0.81%	1.07%	0.77%
Solvency (Net NPA/Net worth)	3.4%	4.1%	2.9%
CRAR	44.08%	45.41%	42.73%

**Based on limited review report; Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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 as of May 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021
					June 21, 2023	Jan-10-2023	Aug-16-2022	Jul-26-2022	Jul-29-2021	Jul-31-2020
1	Long-term bank facilities	Long term	1,250.00	848.75	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	-	-	-
2	Non-convertible debentures	Long term	624.00	307.30	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	-	-	-
3	Non-convertible debentures	Long term	-	-	-	[ICRA]AA(Stable); reaffirmed and withdrawn	[ICRA]AA(Stable)	-	-	-
4	Subordinated debt	Long term	66.00	66.00	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	-	-	-
5	Commercial paper programme	Short term	600.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper programme	Very Simple
Long-term bank facilities	Simple
Non-convertible debentures	Simple

Instrument	Complexity Indicator
Subordinated debt	Complex

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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term bank facilities	Sep-30-2022 to Nov-30-2022	NA	Sep-30-2027 to Nov-30-2038	1,250.00	[ICRA]AA(Stable)
INE538L07163	Non-convertible debenture	Jan-06-2016	9.60%	Jan-06-2026	30.00	[ICRA]AA(Stable)
INE538L07171	Non-convertible debenture*	Jan-07-2016	9.60%	Jan-07-2023	20.00	[ICRA]AA(Stable)
INE538L07189	Non-convertible debenture	Jan-19-2016	9.60%	Jan-19-2026	10.00	[ICRA]AA(Stable)
INE538L07197	Non-convertible debenture	Jan-19-2016	9.60%	Jan-19-2026	2.70	[ICRA]AA(Stable)
INE538L07205	Non-convertible debenture	Jan-25-2016	9.60%	Jan-25-2026	20.00	[ICRA]AA(Stable)
INE538L07213	Non-convertible debenture	Jan-29-2016	9.55%	Jan-29-2026	12.00	[ICRA]AA(Stable)
INE538L07221	Non-convertible debenture	Mar-01-2016	9.55%	Mar-01-2026	10.00	[ICRA]AA(Stable)
INE538L07254	Non-convertible debenture	Mar-22-2016	9.55%	Mar-22-2026	20.00	[ICRA]AA(Stable)
INE538L07270	Non-convertible debenture	Mar-31-2016	9.55%	Mar-31-2026	12.50	[ICRA]AA(Stable)
INE538L07296	Non-convertible debenture*	Apr-28-2016	9.30%	Apr-28-2023	11.30	[ICRA]AA(Stable)
INE538L07304	Non-convertible debenture*	May-13-2016	9.30%	May-13-2023	5.00	[ICRA]AA(Stable)
INE883F07025	Non-convertible debenture	May-05-2016	9.40%	May-05-2026	20.00	[ICRA]AA(Stable)
INE883F07017	Non-convertible debenture*	May-05-2016	9.40%	May-05-2023	30.00	[ICRA]AA(Stable)
INE883F07041	Non-convertible debenture	Jul-08-2016	9.35%	Jul-08-2026	2.00	[ICRA]AA(Stable)
INE883F07058	Non-convertible debenture	Jul-13-2016	9.40%	Jul-13-2026	1.20	[ICRA]AA(Stable)
INE883F07066	Non-convertible debenture	Jul-19-2016	9.28%	Jul-18-2026	2.00	[ICRA]AA(Stable)
INE883F07074	Non-convertible debenture	Aug-05-2016	9.15%	Aug-05-2026	1.20	[ICRA]AA(Stable)
INE883F07124	Non-convertible debenture	Oct-27-2016	9.36%	Oct-27-2023	4.00	[ICRA]AA(Stable)
INE883F07140	Non-convertible debenture	Nov-21-2016	9.40%	Nov-21-2023	20.00	[ICRA]AA(Stable)
INE883F07157	Non-convertible debenture	Nov-22-2016	9.40%	Nov-22-2023	9.00	[ICRA]AA(Stable)
INE538L07379	Non-convertible debenture	Nov-16-2016	9.00%	Nov-16-2026	5.00	[ICRA]AA(Stable)
INE883F07173	Non-convertible debenture*	May-05-2020	8.00%	May-05-2023	200.00	[ICRA]AA(Stable)
INE883F07215	Non-convertible debenture	Oct-19-2020	8.10%	Oct-20-2025	50.00	[ICRA]AA(Stable)
INE538L07502	Non-convertible debenture	Sep-29-2018	9.25%	Sep-29-2023	30.51	[ICRA]AA(Stable)
INE538L07510	Non-convertible debenture	Sep-29-2018	9.65%	Sep-29-2023	18.96	[ICRA]AA(Stable)
INE538L07528	Non-convertible debenture	Sep-29-2018	9.35%	Sep-29-2028	9.55	[ICRA]AA(Stable)

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE538L07536	Non-convertible debenture	Sep-29-2018	9.75%	Sep-29-2028	11.68	[ICRA]AA(Stable)
NA	Non-convertible debenture – Yet to be issued	NA	NA	NA	55.40	[ICRA]AA(Stable)
INE538L08021	Subordinated debt	Jul-27-2016	NA	Jul-27-2023	6.00	[ICRA]AA(Stable)
INE538L08054	Subordinated debt	Sep-19-2016	NA	Sep-19-2026	10.00	[ICRA]AA(Stable)
INE538L08062	Subordinated debt	Oct-10-2016	NA	Oct-10-2026	3.00	[ICRA]AA(Stable)
INE538L08070	Subordinated debt	Oct-10-2016	NA	Oct-10-2026	15.00	[ICRA]AA(Stable)
INE538L08088	Subordinated debt	Oct-10-2016	NA	Oct-10-2026	25.00	[ICRA]AA(Stable)
INE538L08096	Subordinated debt	Oct-17-2016	NA	Oct-17-2026	7.00	[ICRA]AA(Stable)
NA	Commercial paper programme – Yet to be issued	NA	NA	7-365 days	600.00	[ICRA]A1+

**Instrument matured; Source: Company*

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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