Aavas Financiers Limited

March 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	7,432.00 (Enhanced from 7,052.00)	CARE AA; Stable	Reaffirmed
Long-term – Cash credit	130.00 (Enhanced from 110.00)	CARE AA; Stable	Reaffirmed
Long-term – Non-convertible debentures	375.00	CARE AA; Stable	Reaffirmed
Long-term – Non-convertible debentures	420.00	CARE AA; Stable	Reaffirmed
Long-term – Non-convertible debentures	200.00	CARE AA; Stable	Reaffirmed
Short-term instruments – Proposed commercial paper	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed ratings of instruments of Aavas Financiers Limited (AFL), deriving strength from its experienced management team and established track record of maintaining good asset quality with portfolio growth. Ratings also factor the company's strong capitalisation and comfortable liquidity profile with no negative cumulative mismatches across time buckets, per the asset liability maturity (ALM) statement on December 31, 2023. While reaffirming ratings, CARE Ratings has considered AFL's entire debt profile and its ability of raising funds from sources at competitive rates.

Ratings also factor healthy profitability metrics, high portfolio granularity, and adequate risk management and control systems put in place by the company. This, with good growth opportunities in the affordable housing segment.

However, ratings are offset by AFL's relatively vulnerable target borrower profile, with most customers new to mortgage having modest credit profiles (self-employed borrowers comprising 60% of the assets under management [AUM] as on December 31, 2023), making the company susceptible to inherent asset quality risks. However, owing to granularity of the loan book with low loan-to-value ratio (LTV; average of 55%), strong credit appraisal mechanisms, prudent and proactive risk management and control systems and the enhanced use of technology and analytics, AFL has been able to keep its asset quality under control.

AFL continues to have a geographically concentrated portfolio, with Rajasthan accounting for about 35% of the AUM as on December 31, 2023, although reduced from 44% as on March 31, 2019.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Significantly scaling-up operations in a sustainable and profitable manner.
- Significantly improving geographical diversification.
- Comfortable asset quality, with credit cost under control on a sustained basis.

Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Weakness in profitability, with return on total assets (RoTA) below 2.5% on a continuous basis.
- Sharply varying portfolio mix.
- Weakness in capitalisation profile with gearing rising above 7x.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that AFL will continue growing its loan book while maintaining asset quality under control.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Experienced board of directors and management team

AFL is majority owned by two private equity (PE) investors, Kedaara Capital and Partners Group, with a shareholding of 23.60% and 16.12% as on December 31, 2023. As on March 05, 2024, both Kedaara Capital and Partners Group divested their stake in the company by 7.58% and by 5.25% respectively. On the same day, one of the PSU owned Mutual Fund acquired 8.86% stake in the company. The board of AFL includes representatives from both the private equity (PE) investors and three independent directors. The management team is headed by Sachinder Bhinder, Managing Director & CEO, and Ghanshyam Rawat, President and CFO, who are supported by an experienced second line of management with vast experience in the finance and housing finance industry. As of now 10+ CXOs are there in the company.

Robust capitalization

The capitalization profile of AFL is strong supported by healthy internal accruals and regular equity infusions in the past. The tangible net worth (TNW) of AFL stood at ₹3,593.17 crore as on December 31, 2023, up from ₹3,245 crore as on March 31, 2023. The company's gearing also stood comfortable at 3.2x as on December 31, 2023, as compared to 3x as on March 31, 2023. While the gearing is expected to increase with incremental business being funded with fresh borrowings, CARE Ratings expects gearing to remain below 6x in the medium to long term.

The capital adequacy ratio (CAR) of AFL also remains strong with Tier-1 and overall CAR of 44.80% and 45.01%, respectively, as on December 31, 2023, which is well above the regulatory requirement. The capitalization profile is also supported by lower risk weights assigned on smaller ticket home loans and secured nature of portfolio. CARE Ratings expects that comfortable capitalization profile of AFL will provide buffer against asset quality related shocks, if any.

Diversified resource profile

AFL's funding profile remains diversified over the past few years with funding from banks/financial institutions (FIs) (through a mix of term loans amounting to 47% of the total borrowings as on December 31, 2023), refinance from National Housing Bank (NHB; 19%) and through non-convertible debentures (NCDs) (10%). Furthermore, AFL's funding position remains adequate due to strong relationship with all the leading banks of the country such as Punjab National Bank (PNB), State Bank of India (SBI), HDFC Bank Ltd. and funding support from various international agencies, such as Asian Development Bank (ADB), International Finance Corporation (IFC), and British International Investment (Erstwhile known as CDC) as on December 31, 2023.

The average borrowing cost of AFL (reported) stood at 6.64% as on March 31, 2023, and 7.59% as on December 31, 2023. Furthermore, AFL has no dependency on short-term commercial paper funding. The company borrowed incremental funds at an average interest rate of around 8.20% for the quarter ended December 31, 2023.

Healthy financial risk profile

Engaged in providing affordable housing finance, AFL has registered strong growth with assets under management (AUM) growing at a five-year compounded annual growth rate (CAGR) of 28% from fiscal 2018 at ₹4,073 crore till fiscal 2023 at ₹14,166.7 crore primarily driven by low base. Further it grew by 18% (annualised) YTD to ₹16,080 crore as on December 31, 2023. The housing loan portfolio comprises 69% of the total AUM while the remaining 31% belongs to mortgage-backed non-housing portfolio, primarily Loan Against Properties (LAP) and MSME loans with average ticket size of ₹7.5 lakh as on December 31, 2023. Although the non-housing loan portfolio increased to 31% as on December 31, 2023, it is in compliance with the Reserve Bank of India (RBI) guidelines for maintaining the minimum proportion between housing and non-housing loan to 60:40. The management aims to keep non-housing loans at around the similar level of the total loan book in the medium term.

The profitability remains healthy with the net interest margins (NIMs) of 6.53% in FY23, though slightly reduced to 6.20% in 9MFY24, with cost of borrowings rising owing to rise in interest rates. Operating expenses to average assets ratio has slightly improved to 3.70% in 9MFY24 from 3.75% in FY23. This, coupled with low credit cost of 0.10% in FY23 and 0.18% in 9MFY24, the company has reported a RoTA of 3.53% in FY23 and 3.23% in 9MFY24. Going forward, CARE Ratings expects NIMs to further compress from the current levels on account of elevated interest rate scenario which is expected to lead to higher cost of borrowing and increase in gearing.

Asset quality under control

AFL has continued to report healthy asset quality metrics with gross non-performing asset (GNPA) ratio of 0.92% and net non-performing assets (NNPA) ratio of 0.68% as on March 31, 2023, however, as on December 31, 2023, GNPA has slightly increased due to seasonality and stood at 1.09% with NNPA ratio at 0.79%, respectively though remains under control.

Furthermore, with improved collection and underwriting system, delinquency level of AFL in softer buckets (1+dpd) also stands comfortable with 1+dpd of 3.75% as on December 31, 2023, down from the level of 4.05% as on December 31, 2022.

The asset quality profile of the company is, supported by strong control systems and low LTV ratios, with average LTV at about 55% end- December 31, 2023. Also, given the secured nature of the lending with comfortable LTV ratio at origination, most of the properties being self-occupied, and the company being covered under the SARFAESI Act., losses, in case of defaults, are expected to be limited.

Key weaknesses

Exposure to relatively vulnerable borrower segment

AFL's portfolio size remains moderate compared to large, rated players in the housing finance industry. As an affordable housing finance company, AFL is focused on providing secured retail home loans to low- and middle-income borrowers in semi-urban and rural regions, with majority of them having lack of formal income documents. The customers of AFL are a mix of self-employed (60% of AUM as on December 31, 2023) and the remaining 40% as salaried borrowers with majority of them in Tier-2 to Tier-5 cities, thereby exposing the company to the relatively economically-vulnerable borrower segment. Since this segment is highly susceptible to the impact of economic downturn, maintaining good asset quality while increasing the scale of operations is a key sensitivity. The company has put in place adequate credit appraisal mechanisms and integrated MIS systems.

The company has invested substantially in improving and advancing technology, which has led to higher operational expenses. With the transition in technology, the company has implemented Salesforce platform, which earlier started as a pilot project in March 2023, and then launched in April 2023. The company has also added tools like Mule soft which is then blended with their analytical models. With the help of these technological changes, operating efficiency is expected to improve by bringing in standardisation of process across all geographies. Furthermore, it may effectively monitor assets quality and enhance the risk management system. AFL has made transformations in its middle office systems by implementing Oracle Flex Cube and Oracle Fusion on Oracle Cloud to create the system more robust. The company has successfully piloted ChatGPT powered GenAI Chatbot with multilingual support in the customer app thereby improving customer experience. With these implementations, the company plans to see the significant reduction in turnaround time (TAT). Going forward, its ability to scale up the loan book while maintaining asset quality remains key monitorable.

High geographical concentration, though improving

While the company has presence in 13 states, the state-wise geographic concentration remains high with Rajasthan alone accounting for 35% of the AUM as on December 31, 2023, and top three states (Rajasthan, Maharashtra, and Gujarat) together accounting for 67% of AUM as on December 31, 2023, reduced from 44% concentration in Rajasthan and 80% concentration in top three states as of March 31, 2019. However, the company has been deepening its presence in the existing states with opening of new branches at district/tehsil level. The geographic concentration is expected to further come down, as the company plans to expand its operations in other geographies. The company plans on growing its disbursements across states like Karnataka, Odisha, and Uttar Pradesh and will continue to grow deeper into their existing geographies. As on December 31, 2023, the company has presence in 13 states with 351 branches.

Liquidity: Strong

AFL has well matched the tenure of its housing loan book and that of its borrowings, rendering liquidity profile of the company very comfortable with no negative cumulative mismatches across the time buckets as on December 31, 2023. The liquidity stands strong with cash equivalents of ₹1,741 crore and sanctioned but un-availed bank lines to the tune of ₹2,334 crore as on December 31, 2023, against the debt liability of ₹720 crore for the next six months.

Environment, social, and governance (ESG) risks

AFL intends to build a strategic approach, where environment, social and governance fundamentals are embedded into the business. For this, it has signed a partnership with IFC, a member of the World Bank Group, for promoting affordable green homes in India with the help of environmental-friendly architecture of individual homes. About 5,000+ customers have shown interest for building a green home and willingly committed to use one or more green and sustainable measures in their homes.

The company has also aligned its corporate social responsibility (CSR) strategy with Sustainable Development Goals of the 2030-Global Agenda for Sustainable Development adopted by all Unites Nations (UN) Member States, with extensive initiatives in areas of public healthcare, climate action, rural development, sports and quality education.

Applicable criteria

[Definition of Default]
[Rating Outlook and Rating Watch]
[Financial Ratios - Financial Sector]
[Housing Finance Companies]
[Short Term Instruments]

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Housing Finance Company

AFL, a housing finance company, was incorporated in February 2011 as a subsidiary of AU Small Finance Bank (rated 'CARE AA; Stable'). It received the NHB License – Certificate of Registration on August 04, 2011, and commenced operations from March 2012. In June 2016, to comply with the RBI guidelines, AU SFB divested majority of its shareholding to two private equity players – Kedaara Group and Partners Group. As on March 05, 2024, the Kedaara group holds 15.6% stake in AFL, the Partners Group holds 10.9% stake, and the remaining 73.5% is held by the public, including management team of AFL and marquee investors. AFL is engaged in providing retail home loans with focus on affordable housing segment to customers in semi-urban and rural regions. As on December 31, 2023, the company operates through a network of 351 branches in 13 states – Rajasthan, Maharashtra, Gujarat, Madhya Pradesh, Delhi, Haryana, Punjab, Chhattisgarh, Uttar Pradesh, Uttarakhand, Himachal Pradesh, Odisha and Karnataka.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31,2023 (A)	9M FY2024 (UA)
Total operating income	1,305.56	1,610.15	1,473.89
PAT	356.8	430.07	348.21
Interest coverage (times)	1.95	1.93	1.74
Total assets*	11,014.59	13,386.00	15,411.48
Net NPA (%)	0.76	0.68	0.79
ROTA (%)	3.57	3.53	3.23

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
*excludes Deferred tax assets and intangible assets

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	130.00	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	Sep-30-2031	7432.00	CARE AA; Stable
Non-convertible debentures	INE216P07167	16-Sep-2019	NA	15-Sep-24	345.00	CARE AA; Stable
Non-convertible debentures	INE216P07175	30-Mar-2020	NA	30-Mar-28	444.40	CARE AA; Stable
Non-convertible debentures	INE216P07217	26-Nov-2021	Repo rate linked	26-Nov-26	99.00	CARE AA; Stable
Non-convertible debenture	INE216P07225	25-Mar-2022	Repo rate linked	25-Mar-2027	100.00	CARE AA; Stable
Non-convertible debentures	Proposed	-	-	-	6.60	CARE AA; Stable
Commercial Paper (Standalone)	Proposed	-	-	-	100.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	1)CARE A1+ (05-Jan-24) 2)CARE A1+ (06-Oct-23) 3)CARE A1+ (06-Jul-23)	1)CARE A1+ (21-Mar-23) 2)CARE A1+ (28-Dec-22) 3)CARE A1+ (13-Sep-22) 4)CARE A1+ (05-Apr-22)	1)CARE A1+ (05-Oct-21)	1)CARE A1+ (05-Jan-21)
2	Fund-based - LT-Term Loan	LT	7432.00	CARE AA; Stable	1)CARE AA; Stable (05-Jan-24) 2)CARE AA; Stable (06-Oct-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (05-Jan-21)

					3)CARE AA; Stable (06-Jul-23)	3)CARE AA; Stable (13-Sep-22) 4)CARE AA-; Positive (05-Apr-22)		
3	Debt-Subordinate Debt	LT	-	-	1)Withdrawn (05-Jan-24) 2)CARE AA; Stable (06-Oct-23) 3)CARE AA; Stable (06-Jul-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22) 3)CARE AA; Stable (13-Sep-22) 4)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (05-Jan-21)
4	Debt-Subordinate Debt	LT	-	-	1)Withdrawn (05-Jan-24) 2)CARE AA; Stable (06-Oct-23) 3)CARE AA; Stable (06-Jul-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22) 3)CARE AA; Stable (13-Sep-22) 4)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (05-Jan-21)
5	Debentures-Non Convertible Debentures	LT	375.00	CARE AA; Stable	1)CARE AA; Stable (05-Jan-24)	1)CARE AA; Stable (21-Mar-23)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (05-Jan-21)

					2)CARE AA; Stable (06-Oct-23) 3)CARE AA; Stable (06-Jul-23)	2)CARE AA; Stable (28-Dec-22) 3)CARE AA; Stable (13-Sep-22) 4)CARE AA-; Positive (05-Apr-22)		
6	Fund-based - LT-Cash Credit	LT	130.00	CARE AA; Stable	1)CARE AA; Stable (05-Jan-24) 2)CARE AA; Stable (06-Oct-23) 3)CARE AA; Stable (06-Jul-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22) 3)CARE AA; Stable (13-Sep-22) 4)CARE AA-; Positive (05-Apr-22)	-	-
7	Debentures-Non Convertible Debentures	LT	420.00	CARE AA; Stable	1)CARE AA; Stable (05-Jan-24) 2)CARE AA; Stable (06-Oct-23) 3)CARE AA; Stable (06-Jul-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22) 3)CARE AA; Stable (13-Sep-22) 4)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (05-Jan-21)

8	Debentures-Non Convertible Debentures	LT	200.00	CARE AA; Stable	1)CARE AA; Stable (05-Jan-24) 2)CARE AA; Stable (06-Oct-23) 3)CARE AA; Stable (06-Jul-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22) 3)CARE AA; Stable (13-Sep-22) 4)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (18-Nov-21)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- – Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in