Aavas Financiers Limited

March 21, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	6,012.00 (Enhanced from 5,012.00)	CARE AA; Stable	Reaffirmed
Long Term Long Term Instruments	50.00	CARE AA; Stable	Reaffirmed
Long Term Long Term Instruments	50.00	CARE AA; Stable	Reaffirmed
Non Convertible Debentures	375.00	CARE AA; Stable	Reaffirmed
Non Convertible Debentures	420.00	CARE AA; Stable	Reaffirmed
Non Convertible Debentures	200.00	CARE AA; Stable	Reaffirmed
Commercial Paper	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings reaffirmed to the various instruments of Aavas Financiers Limited (AFL) derives strength from its experienced management team, established track record of maintaining good asset quality along with portfolio growth, strong capitalisation and comfortable liquidity profile of the company with no negative cumulative mismatches across time buckets as per the asset liability maturity (ALM) statement dated December 31, 2022. While reaffirming the rating, CARE Ratings Limited (CARE Ratings) has considered the company's entire debt profile and company's ability to raise funds from various sources at competitive rates.

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

These rating strengths are, however, offset by relatively vulnerable target borrower profile of AFL with majority of customers being new to credit with having modest credit profile (self-employed borrowers comprising 60% of asset under management [AUM] as on December 31, 2022), which makes AFL susceptible to the inherent asset quality risks. However, owing to granularity of loan book with low loan to value ratio (average LTV-54%), strong credit appraisal mechanisms, prudent and proactive risk management and control system coupled with enhanced use of technology and analytics, AFL has been able to keep its asset quality under control.

Also, AFL continues to have geographically concentrated portfolio, with Rajasthan accounting for about 38% of AUM as on December 31, 2022, though reduced from 47% as on June 30, 2018.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant scale up of operations in a sustainable and profitable manner.
- Significant improvement in geographical diversification.
- Comfortable asset quality with credit cost under control on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakness in profitability of AFL with return on total assets (RoTA) below 2.5% on a continuous basis.
- Any sharp variation in portfolio mix.
- Weakness in capitalisation profile with gearing rising above 7x.

Analytical approach: Standalone

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

Outlook: Stable
The Stable outlook reflects CARE Rating's expectation that Aavas financiers Limited will continue to grow the loan book while maintaining the asset quality under control.

Key strengths

Experienced board of directors and management team: AFL is majority owned by two private equity (PE) investors, Kedaara Capital and Partners Group, who cumulatively held 39.8% shareholding as on December 31, 2022. The board of AFL includes representatives from both the PE investors and three independent directors. The management team is headed by Sushil Kumar Agarwal, Founder and Managing Director, and Ghanshyam Rawat, Co-founder and CFO, who are supported by an experienced second line of management with vast experience in the finance and housing finance industry. Further, in order to create additional leadership bandwidth, the role of Managing Director and CEO has been splitted into two distinct roles. Now, Mr. Sachinder Bhinder is appointed as the CEO of the company to look after the day to day business execution activities and Mr. Sushil Agarwal will focus more on long term strategic decisions as the Managing Director of 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 ₹3,145 crore as on December 31, 2022, up from ₹2,803 crore as on March 31, 2022, on account of positive internal accruals. The company's gearing also stood comfortable at 2.8x as on March 31, 2022 and 2.9x as on December 31, 2022. 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 49.22% and 49.50%, respectively, as on December 31, 2022, 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 any asset quality related shocks, if any.

Diversified resource profile: AFL funding profile remains diversified over the past few years with funding from banks/financial institutions (FIs) (through term loans amounting to 42.2% of the total borrowings as on December 31, 2022), refinance from National Housing Bank (NHB; 22%) and through non-convertible debentures (NCDs) and Rupee Dominated Masala Bonds (13.5%). Furthermore, AFL's funding position remains adequate due to strong relationship with all the leading banks of the country 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).
During 9M FY23, the company has raised fresh borrowing of ₹3181.5 crore at a competitive rate of 6.84% for 130 months. The average borrowing cost of AFL (reported) stood at 6.67% as on March 31, 2022 and 6.63% as on December 31, 2022, reduced from 7.83% as on March 31, 2021. Furthermore, AFL has no dependency on short term commercial paper funding.

Healthy financial risk profile: Engaged in providing affordable housing finance, AFL has registered strong growth with AUM growing at a five-year compounded annual growth rate (CAGR) of 33% from fiscal 2017 till fiscal 2022 primarily driven by low base. The housing loan portfolio comprises 70% of the total AUM and the remaining 30% belongs to non-housing portfolio as on December 31, 2022. Furthermore, the non-housing loan portfolio increased to 30% ending quarter December 2022, which is in compliance with the Reserve Bank of India (RBI) guidelines for maintaining the proportion between housing and non-housing loan to 60:40. The non-housing loan comprises LAP and MSME loans backed by mortgages with average ticket size of about ₹7.3 lakh. 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 6.5% in 9M FY23. However, operating expenses to average assets ratio increased slightly to 3.8% in 9MFY23 vs. 3.5% in FY22 due to digital upscaling and initiatives to further improve collection efficiency. This, coupled with improved credit cost of 0.1% in 9MFY23, the company has reported a RoTA of 3.43% in 9M FY23. Going forward, CARE Ratings expects NIMs to be moderated on account of expectation of increase in the cost of borrowing due to higher rate of interest environment and increase in gearing.

Asset quality under control, although on rising trend: AFL has continued to report healthy asset quality metrics with gross non-performing asset (GNPA) ratio of 0.99% & 1.13% and net non-performing asset (NNPA) ratio of 0.76% & 0.87% as on March 31, 2022 & as on December 31, 2022 respectively as compare to gross non-performing asset (GNPA) ratio of 1.72% and net non-performing asset (NNPA) ratio of 1.33% as on December 31, 2021. However, the GNPA seems rising to 1.13% as on December 31, 2022 on account the fact that from April 2022 onwards AFL has started recognizing repossessed and assets held for sale under NPA which amounts to ₹28 crore as on December 31, 2022, 0.27% of total gross loans.

Furthermore, with improved collection and underwriting system, delinquency level of AFL in softer buckets (1+dpd) has improved with 1+dpd of 4.47% end-March 31, 2022, down from the elevated level of 6.4% as on March 31, 2021; further, it remains at 4.d05% as on December 31, 2022. The provision coverage ratio (PCR) on GNPA stood at 24% end-December 31, 2022.

The asset quality profile of the company is, however, supported by strong control systems and low LTV ratios, with average LTV at about 54% end-March 31, 2022. 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 semiurban 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, 2022) and remaining 40% as salaried borrowers with majority of them in Tier-2 to Tier-6 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 enhanced its risk management system with the use of technology and analytics, which has resulted in better operating efficiencies, effective monitoring of collections. Going forward, its ability to scale up the loan book while maintaining asset quality remain 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 38% of the AUM as on December 31, 2022, and top three states (Rajasthan, Maharashtra and Gujarat) together accounting for 69.4% of AUM as on December 31, 2022, reduced from 47% concentration in Rajasthan and 83% concentration in top three states as of June 30, 2018. 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. As on December 31, 2022, the company has presence in 13 states with 321 branches and has added 23 new branches in the last 12 months.

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, 2022. The Liquidity stands strong with cash and liquid investments of ₹1,468 crore as on December 31, 2022 against the debt liability of ₹1,387 crore for the next twelve months.

Environment, social, and governance (ESG) risks

Aavas intends to build a strategic approach where environment, social and governance fundamentals are embedded into the business. For this, company has entered into a partnership with International Finance Corporation (IFC), a member of the World Bank Group, to promote the affordable 'green homes' in India with the help of environmental friendly architecture of individual homes. Around 5000+ customers have shown their interest for building a Green Home and willingly committed to use one or more green and sustainable measures in their homes.

Further, company has aligned their CSR strategy with Sustainable development goals of the 2030- Global Agenda for Sustainable Development adopted by all UN Member States, with extensive initiatives in the areas of public healthcare, climate action, rural development, sport and quality education.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Housing Finance Companies

CareEdge RATINGS

About the company and industry

Industry Classification

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

Aavas Financiers Ltd, 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 December 31, 2022, the Kedaara group holds 23.63% stake in AFL, the Partners Group holds 16.14% stake, and remaining 60.23% 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, 2022, the company operates through a network of 321 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, 2021 (A)	March 31, 2022 (A)	9M FY2023 (UA)
Total operating income	1,105.34	1,305.56	1,159.93
PAT	289.50	356.80	303.32
Interest coverage (times)	1.77	1.95	1.92
Total assets*	8,956.19	11,014.59	12,569.51
Net NPA (%)	0.71	0.76	0.87
ROTA (%)	3.49	3.57	3.43

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 (DDMM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	110.00	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	30-Sep-31	5902.00	CARE AA; Stable
Long-term subordinate debt	INE216P08017	Dec-22-2017	9.24%	22-Dec-23	100.00	CARE AA; Stable
Non-convertible debentures	INE216P07167	Sep-16-2019	NA	15-Sep-24	345.00	CARE AA; Stable

Non-convertible debentures	INE216P07175	Mar-30-2020	NA	30-Mar-28	444.40	CARE AA; Stable
Non-convertible debentures	INE216P07225	Mar-25-2022	Repo rate linked	25-Mar-27	100.00	CARE AA; Stable
Non-convertible debentures	INE216P07217	Nov-26-2021	Repo rate linked	26-Nov-26	99.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	1)CARE A1+ (28-Dec-22) 2)CARE A1+ (13-Sep-22) 3)CARE A1+ (05-Apr-22)	1)CARE A1+ (05-Oct-21)	1)CARE A1+ (05-Jan-21)	1)CARE A1+ (06-Jan-20)
2	Fund-based - LT-Term Loan	LT	5902.00	CARE AA; Stable	1)CARE AA; Stable (28-Dec-22) 2)CARE AA; Stable (13-Sep-22) 3)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (05-Jan-21)	1)CARE AA-; Stable (27-Mar-20) 2)CARE AA-; Stable (06-Jan-20) 3)CARE AA-; Stable (30-Jul-19)

								4)CARE AA-; Stable (15-Jul-19)
3	Debt-Subordinate Debt	LT	50.00	CARE AA; Stable	1)CARE AA; Stable (28-Dec-22) 2)CARE AA; Stable (13-Sep-22) 3)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (05-Jan-21)	1)CARE AA-; Stable (06-Jan-20)
4	Debt-Subordinate Debt	LT	50.00	CARE AA; Stable	1)CARE AA; Stable (28-Dec-22) 2)CARE AA; Stable (13-Sep-22) 3)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (05-Jan-21)	1)CARE AA-; Stable (06-Jan-20)
5	Debentures-Non Convertible Debentures	LT	375.00	CARE AA; Stable	1)CARE AA; Stable (28-Dec-22) 2)CARE AA; Stable (13-Sep-22) 3)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (05-Jan-21)	1)CARE AA-; Stable (06-Jan-20) 2)CARE AA-; Stable (31-May-19)
6	Fund-based - LT-Cash Credit	LT	110.00	CARE AA; Stable	1)CARE AA; Stable (28-Dec-22)	-	-	-

					2)CARE AA; Stable (13-Sep-22) 3)CARE AA-; Positive (05-Apr-22)			
7	Debentures-Non Convertible Debentures	LT	420.00	CARE AA; Stable	1)CARE AA; Stable (28-Dec-22) 2)CARE AA; Stable (13-Sep-22) 3)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (05-Jan-21)	1)CARE AA-; Stable (06-Jan-20) 2)CARE AA-; Stable (13-Dec-19)
8	Debentures-Non Convertible Debentures	LT	200.00	CARE AA; Stable	1)CARE AA; Stable (28-Dec-22) 2)CARE AA; Stable (13-Sep-22) 3)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (18-Nov-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the 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	Debt-Subordinate Debt	Complex
4	Fund-based - LT-Cash Credit	Simple
5	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.

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