Aadhar Housing Finance Limited

June 22,2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Fixed Deposit	15.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Total Medium Term Instruments	**15.00 (₹ Fifteen Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the fixed deposit programme of Aadhar Housing Finance Limited (AHFL) reflects the visible benefits post acquisition by Blackstone Group L.P. in the form of capital infusions, access to a wider base of banks and financial institutions with visible improvement in borrowing rates while also aiding to remove the negative market view as a result of its association with Dewan Housing Finance Limited. The ratings take into account AHFL's sufficient capitalization and moderate gearing. The company has filed the DRHP for Rs.7300 crore with primary issue of Rs.1500 crore and offer for sale of Rs.5800 crore. The rating derives strength from its market position in the affordable housing finance segment and a well-diversified geographical base. Furthermore, a favourable asset quality led by a largely salaried customer base and focus on the retail home loans sector and a relative improvement in the funding profile remain positive factors underpinning the ratings.

Rating remains constrained on account of its exposure to economically weaker borrowers who remain susceptible during ` downturns as reflected by the dip in collection efficiencies during the COVID-19 affected. Additionally, the exhibited growth in recent years results in a moderately seasoned loan portfolio considering the higher tenure of home loans. Consequently, as growth stabilizes and the loan book is seasoned, visibility on asset quality for the company will improve.

Rating sensitivities

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

- Substantial increase in operational scale depicting improved competitive positioning in the segment
- Ability to maintain profitability with ROTA > 3% on sustained basis

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

- Any evidence of weakening of AHFL's leading market position in the affordable housing finance business
- Increase in gearing levels beyond 6x on a net basis.
- Weakening in asset quality on a continuous basis with GNPA > 3%
- Any visible signs of moderation in support from Blackstone group

Detailed description of the key rating drivers

Key Rating Strengths

Evident Benefits from Ownership by Blackstone Group: As on March 31,2022, private equity firm, Blackstone Group L.P. held 98.7% of the shareholding of AHFL through its private equity fund, BCP Topco VII Pte. Ltd. Following acquisition by Blackstone, AHFL strengthened its corporate governance framework, with the induction of three independent directors, one of whom serves as Chairman. Operational oversight has been reflected through the undertaking of various measures such as overhaul of the IT systems and technology and consolidation of branches to bring in operational efficiencies. Furthermore, linkages with Blackstone group have helped AHFL to improve its liability relationships with financial institutions, the benefits of which are visible in the improving resource profile.

AHFL filed its DRHP and the IPO comprises fresh issuance aggregating up to Rs. 1,500 crore by the company and an offer for sale aggregating up to Rs. 5,800 crore by BCP Topco VII PTE. Ltd.

Sufficient Capitalization and Moderate Leverage: As on March 31,2022, capital levels remained adequate with a tangible net worth of Rs. 3,145 crore (March 31,2021: Rs. 2,691 crore) resulting in a Capital Adequacy Ratio (CAR) of 45.41% (March

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

31,2021: 44.08%) and Tier 1 ratio of 44.20% (March 31,2021: 42.62%). This provides AHFL with ample headroom to absorb losses during times of stress and also enhances the ability of the company to fund growth. The net leverage stood at 2.8x as on March 31,2022. (March 31,2021: 2.87x). Going forward, capital position will remain adequately supported by the planned IPO.

Leading Market Share with a Well-diversified Business: AHFL is a leading, low-ticket, affordable housing finance company. Assets Under Management (AUM) of Rs. 13754 crore as on September 30,2021. AUM registered a CAGR growth of ~13.71% over FY18-FY21; AUM rose by 13.12% over September 30,2020 while disbursements reported a 13.17% year-on-year (y-o-y) growth as on September 30,2021.The geographic concentration risk is low with presence across India in a total of 20 states and union territories as on March 31, 2021. The top 5 states comprised 63% of the AUM which is lower relative to industry average - Uttar Pradesh (16.3%), Maharashtra (14.6%), Madhya Pradesh (11.4%) Gujarat (10.6%) and Rajasthan (10.2%) as on March 31,2021. Going forward, AHFL's growth likely to be supported by the expected capital inflow and the overall impetus provided to the affordable housing sector through various government schemes and initiatives. CARE Ratings expects AHFL to further widen its reach in the existing states in newer cities, especially the outskirts of urban cities and semi-urban areas.

Funding Profile Exhibits Improvement: The resource profile of AHFL exhibited further diversification over FY21. Funding mix as of March 31, 2022 - bank & NHB borrowings (82.62%), NCD including subordinate debt (17.31%) and Public deposits (0.07%). While the reduction in cost of funds was witnessed across the sector, AHFL's reduction was also supported by an increase in NHB refinance and its ownership by Blackstone group which helped the company to diversify its resource base, borrow at improving rates and also helped to build relationships especially private banks.

Asset Quality Supported by a Retail Housing Finance Portfolio : Gross Non-Performing Assets (GNPA) as a % of loans outstanding stood at 1.52% and Net NPA at 1.07% as on March 31, 2022 (post reclassification of NPA based on RBI circular dated November 12,2021) as against GNPA 1.21% and Net NPA 0.81% as on March 31, 2021. The provision coverage ratio stood at 30% as on March 31,2022 (32% as on March 31,2021). CARE Ratings notes that AHFL has minimal presence in the higher-risk LAP and developer finance segment. Developer finance now stands at only Rs. 1.10 crore. Furthermore, the borrowers are largely from the retail salaried class. This has helped AHFL to maintain asset quality metrics in a moderate range in the last three years. Even so, asset quality remains vulnerable to low-income borrowers who have a high likelihood of revenues being affected adversely, especially during economic downturns.

Experienced Management: The operations of the company are led by Mr. Deo Shankar Tripathi (MD & CEO) who is a career banker with a vast experience of 40 years in the financial services sector most of which is with Union Bank of India. Mr. Rajesh Viswanathan is the CFO of AHFL. Mr. Viswanathan is a Chartered Accountant and has an overall experience of over 25 years working for companies such as Capital Float, Bajaj Allianz Life Insurance & Bajaj Finance Ltd.

Key Rating Weaknesses

Economically Weaker Borrowers Remain Susceptible to Downturns: AHFL's customers are from the economically weaker, low-to-middle income segment who have lower possibility to access to credit from traditional banks and housing finance companies. They are vulnerable to economic downturns which increases the risk for maintaining asset quality especially during times of stress. This is partly offset by the higher share of the relatively low-risk segment i.e. the salaried borrowers in AHFL's portfolio at 64%; of which the formal salaried customers accounted for 84%. Additionally, the self-employed borrowers constituted 36% of the AUM of which the formal customers with income proofs constituted 51%.

Lower Cost of Funds aids Improvement in Profitability during FY22: During FY22, Pre-Provision Operating Profit rose 26% over FY21 to Rs. 615.8 crores (FY21: Rs. 487.2 crores) supported by an improvement in Net Interest Margin (NIM). The increase in NIM from 4.70% (Interest income-Interest expense) in FY21 to 5.55% in FY22 can be attributed to decline in cost of borrowings with minimal decline in yield on advances. Operating expense to total assets (adjusted for intangibles) increased to 2.25% in FY22 from 1.92% in FY21 mainly on account of higher employee costs during FY22. However, supported by higher NIM and lower credit cost, Return on Total Assets (adjusted for intangibles) (ROTA) increased to 3.18% in FY22 (FY21: 2.62%).

CARE Ratings notes that any further increase in NIM will depend on the ability of the company to raise funds at competitive rates considering yields are expected to be stable with no expected change in product mix.

Moderate Seasoning of the Portfolio: AHFL had been growing at a faster pace in the earlier years. The AUM growth was 26% on y-o-y basis in FY19, which has moderated to 14% of AUM on y-o-y basis in FY20, 17% in FY21 and. Nevertheless, the increase in scale of operations has been witnessed in the past few years resulting into moderate seasoning of the portfolio considering the tenure of its loan portfolio is on the higher side.

Liquidity: Strong

The liquidity profile of the AHFL as on September 30,2021 was strong with positive cumulative surplus across all time buckets including the undrawn lines of credit. The company maintained liquidity of Rs. 1849 crore as on September 30,2021 which consists of Rs. 1656 crore of unencumbered cash and bank balance and fixed deposits and Rs. 193 crore of investments in liquid mutual funds. The said liquidity is sufficient for principal debt repayments over the next 12 months (without considering the inflows from advances) as on September 30,2021

Analytical approach

The ratings are based on AHFL's standalone performance while factoring the support of the parent company; Blackstone India.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Methodology- Housing Finance Companies
Rating Outlook and Credit Watch

About the company

Aadhar Housing Finance Limited (AHFL) is a housing finance company engaged in providing housing finance to the lower income segment of the society. AHFL was set up in 1990. As on March 31,2021, Blackstone Private Equity through its fund BCP Topco Vii Pte. Ltd holds 98.72% stake in AHFL and the remaining is held by ICICI Bank Ltd. AHFL now spans across 20 states with around 319 branches & offices with an AUM of Rs. 13,327 crore as on March 31, 2021 with 1,82,022 live accounts spanning across home loans and loan against property. The company has a total employee base of 2,310 and it sources its business through a network of Direct Selling Teams (DSTs), Direct Selling Agents (DSAs), Resident Executives and Aadhar Mitras

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (A)
Total income	1372	1550	1693
PAT	189	340	445
Interest coverage ratio	1.29	1.53	1.75
Total Assets	12,364	13,626	14,372
Net NPA (%)	0.78	0.81	1.07
ROTA (%)	1.74	2.62	3.18

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit	-	-	-	-	15.00	CARE AA; Stable

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	Fund-based - LT-Term Loan	LT	90.72	CARE AA; Stable	-	1)CARE AA; Stable (02-Dec-21) 2)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20) 2)CARE AA; Stable (27-Jun-19)
2	Fund-based - LT-Term Loan	LT	94.65	CARE AA; Stable	-	1)CARE AA; Stable (02-Dec-21) 2)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20) 2)CARE AA; Stable (27-Jun-19)
3	Fund-based - LT-Term Loan	LT	11.99	CARE AA; Stable	-	1)CARE AA; Stable (02-Dec-21) 2)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20) 2)CARE AA; Stable (27-Jun-19)
4	Fund-based - LT-Term Loan	LT	134.45	CARE AA; Stable	-	1)CARE AA; Stable (02-Dec-21) 2)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20) 2)CARE AA; Stable (27-Jun-19)
5	Fund-based - LT-Term Loan	LT	3.75	CARE AA; Stable	-	1)CARE AA; Stable (02-Dec-21) 2)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20) 2)CARE AA; Stable (27-Jun-19)
6	Fund-based - LT-Term Loan	LT	218.73	CARE AA; Stable	-	1)CARE AA; Stable (02-Dec-21) 2)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20) 2)CARE AA; Stable (27-Jun-19)
7	Fund-based - LT-Term Loan	LT	225.00	CARE AA; Stable	-	1)CARE AA; Stable (02-Dec-21) 2)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20) 2)CARE AA; Stable (27-Jun-19)
8	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (07-Jul-20)	1)CARE AA; Stable (27-Jun-19)
9	Fund-based - LT-Term Loan	LT	157.34	CARE AA; Stable	-	1)CARE AA; Stable (02-Dec-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20)

						2)CARE AA; Stable (06-Jul-21)		2)CARE AA; Stable (27-Jun-19)
10	Fund-based - LT-Term Loan	LT	336.36	CARE AA; Stable	-	1)CARE AA; Stable (02-Dec-21) 2)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20) 2)CARE AA; Stable (27-Jun-19)
11	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (07-Jul-20)	1)CARE AA; Stable (27-Jun-19)
12	Debentures-Non Convertible Debentures	LT	1201.50	CARE AA; Stable	-	1)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (27-Jun-19)
13	Debt-Subordinate Debt	LT	150.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Jul-21)	1)CARE AA-; Stable (07-Jul-20)	1)CARE AA-; Stable (27-Jun-19)
14	Fund-based - LT-Term Loan	LT	3401.65	CARE AA; Stable	-	1)CARE AA; Stable (02-Dec-21) 2)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20) 2)CARE AA; Stable (27-Jun-19)
15	Fund-based-Long Term	LT	3797.46	CARE AA; Stable	-	1)CARE AA; Stable (02-Dec-21) 2)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20) 2)CARE AA; Stable (27-Jun-19)
16	Debentures-Non Convertible Debentures	LT	1676.40	CARE AA; Stable	-	1)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (17-Mar-20) 2)CARE AA; Stable (27-Jun-19)
17	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (27-Jun-19)
18	Fixed Deposit	LT	15.00	CARE AA; Stable				

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	**Fixed deposit**	**Complex**

Annexure-5: Bank lender details for this company

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

Note on 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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