July 26, 2022

Aadhar Housing Finance Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	600.00	600.00	[ICRA]A1+; reaffirmed
Total	**600.00**	**600.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation factors in Aadhar Housing Finance Limited's (AHFL) healthy scale and geographically diversified operations. As on March 31, 2022, the company had assets under management (AUM) of Rs. 14,778 crore spread across 341 branches and offices in more than 15,000 locations in 20 states/Union Territories (UTs). Further, AHFL's operations are focused on the low-income housing segment with home loans comprising 83% of the AUM as on December 31, 2021 (85% as on March 31, 2021). 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 asset quality will remain a key monitorable, given the Covid-19-induced disruptions. The rating also takes into account AHFL's experienced management team and adequate internal controls and systems.

Post equity infusion in FY2020, AHFL's capitalisation profile improved significantly, and the gearing (reported)[1] remained low at 3.4 times as on March 31, 2022. Over the medium term, AHFL plans to operate at net leverage levels in the range of 5-6 times. It is in the process of launching its initial public offering through which it plans to raise ~Rs. 1,500 crore of fresh equity capital, which would help in supporting its growth plans while maintaining a prudent capitalisation profile. The rating also factors in the company's fairly diversified funding profile, which comprised loans from banks (47%), refinance from National Housing Bank (NHB; 18%), non-convertible debentures (NCDs; 13%), subordinated debt (1%), assignment (20%) and others as on March 31, 2022.

Despite improving, AHFL's profitability profile remains moderate compared to peers. It reported a net profit of Rs. 445 crore, translating into a return of 2.6% on average managed assets (AMA[2]; return of 3.2% on average total assets) and 15.2% on average net worth in FY2022 (Rs. 340 crore, 2.2% and 13.5%, respectively, in FY2021). Given the relatively riskier borrower profile of the low-and-assessed-income segments, the asset quality indicators could exhibit more volatility. The company has a good credit appraisal and collection mechanism, which has helped it maintain comfortable asset quality indicators with gross non-performing assets (NPAs) of 1.52%[3] and net NPAs of 1.07% as on March 31, 2022 (1.21% and 0.81%, respectively, as on March 31, 2021). However, it remains exposed to volatility in the asset quality as witnessed during the Covid-19 pandemic, given the risk associated with the target borrower segment. Moreover, it had a standard restructured portfolio of 3.6% on its balance sheet as on March 31, 2022. A part of this portfolio was under moratorium till March 2022 and the performance of the same will be a key monitorable. Going forward, AHFL's ability to maintain the asset quality as it scales up its operations will be important for 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

[3] Includes loan assets of Rs. 32.81 crore (0.27%) not more than 90 days past due, which have been classified as NPA in accordance with Reserve Bank of India's circular dated November 12, 2021 (Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications)

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. 14,778 crore as on March 31, 2022, reporting a 5-year CAGR[4] of 24%. As on December 31, 2021, 83% of the company's AUM comprised home loans secured largely by self-occupied residential properties. With around 90% of its AUM comprising ticket sizes up to Rs. 20 lakh, AHFL is well placed to tap the demand in the low-income housing segment.

Further, its operations are geographically diversified and spread across more than 15,000 locations in 20 states/UTs through 341 branches and offices as on March 31, 2022. The top 3 states accounted for 41% of its portfolio as on December 31, 2021 (42% as on March 31, 2021; 43% as on March 31, 2020). 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, the competitive landscape and the impact of Covid-19, AHFL's ability to manage the pressure on margins will remain a key monitorable.

Experienced management team; adequate internal controls and systems – AHFL's management team, which has been retained post the change in ownership, is experienced and has a demonstrated track record of creating scale in the housing finance business. The company has also set up adequate credit appraisal, risk management and portfolio monitoring systems. ICRA expects AHFL to continue to improve its processes and systems, in line with the growth in the business volumes.

Adequate capitalisation profile – Subsequent to 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 3.4 times as on March 31, 2022 (managed gearing[5] of 4.3 times). AHFL was carrying significant on-book liquidity (~12% of total assets) as on March 31, 2022, adjusting for which the net gearing was much lower. Over the medium term, AHFL plans to operate at net leverage levels in the range of 5-6 times. It is in the process of launching its initial public offering through which it plans to raise ~Rs. 1,500 crore of fresh equity capital, which would help in supporting its growth plans while maintaining a prudent capitalisation profile.

Fairly diversified funding profile – The funding profile is fairly diversified and comprised loans from banks (47%), refinance from NHB (18%), NCDs (13%), subordinated debt (1%), assignment (20%) and others as on March 31, 2022. There were no commercial papers outstanding as on March 31, 2022. In terms of fund raising, post the change in ownership, AHFL has been able to raise funds regularly from diversified funding sources, including relatively low-cost funds from NHB.

Credit challenges

Profitability indicators improve but remain moderate compared to peers – The yield on average gross loans for the company declined in FY2022 led by the systemic softening of interest rates, though the impact was partially offset by the increase in the share of the relatively higher-yielding non-home loan portfolio. With the systemic softening of interest rates and the increase in the share of low-cost funding from NHB, its cost of average interest-bearing funds also declined in FY2022. With the decline in the cost of average interest-bearing funds outpacing the decline in yields, the net interest margin (including income from assignment) improved to 5.3% of AMA in FY2022 from 4.5% in FY2021.

Operating expenses increased to 1.9% of AMA in FY2022 from 1.6% in FY2021, with the increase in employee and administrative expenses. The company continues to open new branches and hire personnel to support its envisaged growth plans. Credit costs remained low at 0.3% of AMA in FY2022 compared to 0.4% in FY2021 as the overall asset quality indicators remained comfortable. The company reported a net profit of Rs. 445 crore, translating into a return of 2.6% on AMA (return

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[4] *Compound annual growth rate*

[5] *Gearing (reported) = (Total on-book borrowings + Interest accrued on borrowings + assigned portfolio) / Net worth*

of 3.2% on average total assets) and 15.2% on average net worth in FY2022 (Rs. 340 crore, 2.2% (2.6% on average total assets) and 13.5%, respectively, in FY2021). With the improvement in the margins and the low credit costs, AHFL's profitability profile has been improving, but its return on average managed assets remains moderate compared to peers. Nevertheless, ICRA notes that the company's return on average net worth was higher than some of its peers.

Ability to maintain asset quality – The company's portfolio is quite granular with nominal 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 1.52% and net NPAs of 1.07% as on March 31, 2022 (1.21% and 0.81%, respectively, as on March 31, 2021). However, the company has restructured loans under the Resolution Framework 1.0 & 2.0 for Covid-19-related stress and had a standard restructured portfolio of 3.6% on its balance sheet as on March 31, 2022. A part of this portfolio was under moratorium till March 2022 and the performance of the same will be a key monitorable.

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 high on-book liquidity and the demonstrated ability to raise funds. It had Rs. 1,709 crore of cash, bank balances and liquid investments as on March 31, 2022, which is sufficient to meet at least 1-year's principal debt repayments. As per the asset-liability management profile as on March 31, 2022, the company had positive cumulative mismatches for at least 1-year. The presence of sanctioned unutilised funding lines supports its liquidity profile further.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the company's rating could arise if there is a deterioration in the asset quality with the 90+ days past due (dpd) exceeding 3%, thereby affecting the profitability. A deterioration in the capitalisation profile with the managed gearing exceeding 6 times on a sustained basis or a stretched liquidity position could also exert pressure on the rating.

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 rural housing loans in the lower-ticket size segment. As on March 31, 2022, 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, 2022, the company was present in 20 states/UTs through a network of 341 branches and offices while managing a portfolio of Rs. 14,778 crore.

Key financial indicators (audited)

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

Source: Company, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jul-26-2022	Jul-29-2021	Jul-31-2020	Jun-20-2019
1	Commercial paper programme	Short term	600.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper 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

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial paper programme – Yet to be issued	NA	NA	7-365 days	600.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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