June 25, 2024

Aavas Financiers Limited: [ICRA]AA (Stable) assigned; earlier ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines – NHB refinance	3,248.91	3,375.09	[ICRA]AA (Stable); reaffirmed
Long-term bank lines – Term loan	134.09	17.91	[ICRA]AA (Stable); reaffirmed
Long-term bank lines – Cash credit	15.00	5.00	[ICRA]AA (Stable); reaffirmed
Non-convertible debenture programme	600.00	600.00	[ICRA]AA (Stable); reaffirmed
Non-convertible debenture programme	0.00	300.00	[ICRA]AA (Stable); assigned
Commercial paper	50.00	50.00	[ICRA]A1+; reaffirmed
Total	**4,048.00**	**4,348.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Aavas Financiers Limited's (Aavas) track record in the affordable housing finance space. The company's assets under management (AUM) increased at a compound annual growth rate (CAGR) of 24% during FY2019-FY2024 and stood at Rs. 17,313 crore as on March 31, 2024. ICRA favourably notes that Aavas' capitalisation level remains healthy along with a strong liquidity position and a diversified funding mix. Although the managed gearing[1] is expected to increase from 4.2x as on March 31, 2024 with incremental business being funded by fresh borrowings, ICRA expects the company to maintain a prudent capitalisation profile over the medium term. The ratings also take into account Aavas' satisfactory profitability trajectory, supported by healthy net interest margins (NIMs) and controlled credit costs.

The ratings consider the company's portfolio vulnerability, given its target borrower profile. Aavas' operations remain focussed on low-and-middle-income self-employed borrowers (60% of the AUM as on March 31, 2024), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. Thus, delinquencies in the softer buckets could remain volatile. ICRA, however, draws comfort from Aavas' good underwriting systems and collection infrastructure, which is reflected in the relatively low one days past due (1+ dpd) of 3.1% as on March 31, 2024. Further, losses on default are expected to be limited, considering the secured nature of the portfolio with moderate loan-to-value (LTV) ratios and the low ticket size. Moreover, the assets are largely self-occupied residential properties, thereby supporting the asset quality. The gross stage 3 assets remained stable at 0.9% as on March 31, 2024. The ratings also factor in the limited portfolio seasoning, given the high portfolio growth, and the geographical concentration of the portfolio, though the same is improving. Despite the geographical expansion, dependence on the home state of Rajasthan remains high, albeit declining.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will continue to grow its business volumes while retaining the healthy operational and financial metrics trajectory.

[1] *Managed gearing = (Total borrowings + Off-book portfolio)/Net worth*

Key rating drivers and their description

Credit strengths

Healthy capitalisation – Aavas is well capitalised with a managed gearing of 4.2x and a capital-to-risk weighted assets ratio (CRAR) of 44.0% as on March 31, 2024 (3.9x and 47.0%, respectively, as on March 31, 2023). While the leverage is expected to increase from the current level with fresh borrowings funding the incremental business, ICRA expects the company to maintain a prudent capitalisation profile with a steady-state managed gearing of 5-6x over the medium term. In ICRA's opinion, a prudent capitalisation level, the secured nature of the portfolio backed largely by self-occupied residential properties, and low ticket sizes would be the key mitigants against the inherent risks associated with the company's portfolio, given the target borrower profile. Considering the calibrated growth plans, low leverage, and good internal capital generation, ICRA does not expect Aavas to need external capital infusions to meet its growth target. Also, the comfortable capitalisation level provides a buffer for absorbing any unforeseen asset-side shocks.

Demonstrated ability to grow retail business volumes; track record of good asset quality – Aavas' portfolio has increased over the past five years, driven by the expanded customer base and its foray into new regions and deeper penetration in existing geographies, thereby leading to a CAGR of 24% during FY2019-FY2024. The AUM increased to Rs. 17,313 crore as on March 31, 2024 from Rs. 5,942 crore as on March 31, 2019. As far as the portfolio mix is concerned, the share of individual home loans remained stable at about 69% as on March 31, 2024 with micro, small and medium enterprises (MSME – 17%; secured by mortgage) and other mortgage loans (14%) accounting for the balance. The share of the salaried customer segment stood at 40% as on March 31, 2024.

The gross and net stage 3 stood comfortable at 0.9% and 0.7%, respectively, as on March 31, 2024 compared to 0.9% and 0.7%, respectively, as on March 31, 2023, even with the implementation of the Reserve Bank of India's (RBI) notification on Income Recognition, Asset Classification, and Provisioning (IRACP) norms. Moreover, the gross stage 3, on a 1-year lagged basis, stood comfortable at 1.1% as on March 31, 2024 (1.2% as on March 31, 2023). ICRA, however, notes that the company's portfolio remains vulnerable, given its target borrower profile. Hence, delinquencies in the softer buckets could remain volatile. Aavas demonstrated good underwriting systems and collection infrastructure over the years, which helped bring down the 1+ dpd to 3.1% as on March 31, 2024 (3.3% as on March 31, 2023) from the peak of 12.7% as on June 30, 2021 (during the COVID-19 pandemic). As on March 31, 2024, the entire restructured book was classified under stage 2 and was negligible at 0.4% of the AUM (0.8% as on March 31, 2023) with a provision cover of 13%. ICRA notes that the overall provision cover against the loan book stood stable at 0.6% as on March 31, 2024. Losses, in case of default, are expected to be limited, as most of the properties are self-occupied, the company is covered under the SARFAESI Act, and the nature of lending is secured with moderate LTV ratio at origination.

Satisfactory profitability trajectory – Aavas' blended lending yield remained stable at 12.4% in FY2024 (12.5% in FY2023), driven by its strategy of retaining existing customers with good credit quality. This was despite the sharp increase in the cost of funds to 7.4% in FY2024 from 6.6% in FY2023 due to the rise in systemic interest rates. This led to a moderation in the spreads to 5.0% in FY2024 from 5.9% in FY2023. With the NIM remaining sensitive to the gearing, it moderated to 6.0% in FY2024 from 6.4% in FY2023 while operating expenses and credit costs remained stable at 3.0% and 0.1%, respectively (3.1% and 0.1%, respectively, in FY2023). This resulted in a slight moderation in the profitability indicators with a return on managed assets (RoMA)[2] and a return on net worth (RoNW) of 2.7% and 13.9%, respectively, in FY2024 (2.9% and 14.2%, respectively, in FY2023), though they remain satisfactory. Going forward, the NIMs are likely to be under some pressure on account of the higher gearing. The company's ability to grow the loan book profitably while maintaining the credit quality will be a key monitorable.

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[2] *Return on assets (RoA) stood at 3.3% in FY2024 compared to 3.5% in FY2023*

Strong liquidity profile with diversified funding mix – Aavas' funding profile remains diversified with sources including borrowings from banks and other financial institutions (FIs; 48% of total borrowings as on March 31, 2024), securitisation and assignment (24%; significant proportion of the portfolio qualifies for priority sector lending, thereby providing an additional funding source), National Housing Bank (NHB) refinance (19%), and non-convertible debentures (NCDs; 9%) while others (including lease liability and interest accrued but not due) had a negligible share. The company's incremental borrowing cost has increased due to the rise in systemic interest rates. It raised Rs. 6,145 crore in FY2024 (Rs. 4,763 crore in FY2023) at a weighted average rate of 8.1% (7.3% in FY2023) for a weighted average maturity of 136 months (128 months in FY2023).

Aavas' liquidity profile is strong with sizeable on-balance sheet liquidity in the form of cash and liquid investments and long-tenor liabilities raised by it with no dependence on short-term commercial paper funding since inception. Further, the company's financial flexibility is good, given its relationships with all the leading banks of the country. It also has funding support from various multilateral agencies like International Finance Corporation (IFC), British International Investment (BII; formerly known as Commonwealth Development Corporation) and Asian Development Bank (ADB). Furthermore, while the company is likely to carry relatively lower on-balance sheet liquidity, it is noted that the asset-liability maturity (ALM) profile remains well matched during the normal course of business, aided by the long-tenor liabilities with no dependence on short-term commercial paper funding since inception.

Credit challenges

Relatively high, albeit improving, geographical concentration – Aavas commenced lending operations in March 2012 with primary focus on the home state of Rajasthan. While it subsequently expanded its geographical footprint to 13 states/Union Territories (UTs), its dependence on Rajasthan remains relatively high at 34% as on March 31, 2024, albeit lower than 48% as on March 31, 2017. Although the share of Rajasthan is not expected to reduce significantly in the medium term, the overall geographical diversity is likely to improve with the company gradually expanding and opening new branches in other states. Aavas had 367 branches as on March 31, 2024 spread across Rajasthan, Maharashtra, Gujarat, Madhya Pradesh, Delhi, Uttar Pradesh, Punjab, Haryana, Uttarakhand, Chhattisgarh, Himachal Pradesh, Odisha, and Karnataka.

Exposure to relatively vulnerable borrower profile – Aavas' operations remain focussed on low-and-middle-income self-employed borrowers (60% of the AUM as on March 31, 2024), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. Hence, delinquencies in the softer buckets could remain volatile. Nevertheless, the losses on default are expected to be limited considering the secured nature of the portfolio, the moderate LTV (~61% of the portfolio had an LTV of less than 60% as on March 31, 2024) and the low ticket size. Moreover, the assets are largely self-occupied residential properties. Also, ICRA draws comfort from Aavas' demonstrated ability to control the asset quality and credit cost, which reflects positively on its underwriting norms and collection infrastructure.

Environmental and social risks

While financial institutions like Aavas do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which these institutions have an exposure, face business disruption because of physical climate adversities or if they face climate transition risks because of technological, regulatory or customer behaviour changes, the same could translate into credit risks for financial institutions. However, such risk is not material for Aavas as it has a granular portfolio.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as material lapses could be detrimental to their reputation and invite regulatory censure. Aavas has not faced such lapses over the years, which highlights its sensitivity to such risks. Aavas is seen to be operating responsibly in terms of its business practices with no instances of fines being imposed by regulatory authorities.

Liquidity position: Strong

Aavas' liquidity profile is strong with sizeable on-balance sheet liquidity in the form of cash and liquid investments of ~Rs. 1,785 crore as on March 31, 2024 (equivalent to ~14% of its on-balance sheet borrowings). This is sufficient compared to the total debt-servicing burden (principal and interest) of ~Rs. 3,223 crore over the next one year, as per the ALM profile as on March 31, 2024. The company is also maintaining off-balance sheet liquidity in the form of undrawn cash credit limits of Rs. 125 crore, documented but unavailed sanctions of Rs. 230 crore from NHB and documented but unavailed sanctions of Rs. 894 crore from other banks. As on March 31, 2024, Aavas' ALM reflected scheduled inflows (principal and interest) of Rs. 3,700 crore from performing advances during the next 12 months.

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 and reducing the geographical concentration, would be a credit positive. Retaining the 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 the credit profile.

Negative factors – Pressure on the ratings could arise in case of a significant deterioration in the earnings profile (RoMA of less than 2.5% on sustained basis) or a sustained weakening of the asset quality (90 dpd above 2.0%). Also, a deterioration in the capitalisation profile on a sustained basis or an adverse change in the asset-liability maturity profile will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies[3]
Parent/Group support	-
Consolidation/Standalone	Standalone

About the company

Aavas is a Jaipur (Rajasthan) headquartered housing finance company, which primarily provides housing loans in rural and semi-urban areas. It is present in 12 states and 1 UT, with a network of 367 branches and AUM of Rs. 17,313 crore as on March 31, 2024.

Aavas was incorporated as a subsidiary of Au Financiers (India) Limited {now Au Small Finance Bank Limited (AuSFB)} in February 2011, and it formally began its operations in March 2012. In June 2016, AuSFB sold its stake in Aavas to private equity (PE) investors – Kedaara Capital and Partners Group – to meet the Reserve Bank of India's (RBI) criteria for conversion to a small finance bank. Aavas launched an initial public offering (IPO) in FY2019 and its equity shares got listed on the stock exchanges on October 8, 2018. The total issue size was Rs. 1,734 crore, of which ~Rs. 360 crore was raised for business operations while the rest was utilised to pay off the existing shareholders. The company's shareholding as on March 31, 2024 was: Kedaara Capital (16%), Partners Group (11%), the management team (2%), domestic institutional investors (DIIs; 24%), foreign institutional investor (FIIs; 35%) and others (around 12%).

[3] *For rating a non-banking financial company (NBFC), ICRA evaluates its business risk, ownership, management risk and financial risk, and uses this to assess the level and stability of its future financial performance in likely scenarios, as required. The ratings are determined on a going concern basis rather than on a mere assessment of the assets and debt levels on a particular date*

Aavas reported a profit after tax (PAT) of Rs. 491 crore in FY2024 on a managed asset base[4] of Rs. 19,933 crore as on March 31, 2024 compared to Rs. 430 crore in FY2023 on a managed asset base Rs. 16,182 crore as on March 31, 2023. The company had a net worth of Rs. 3,773 crore and CRAR of 44.0% as on March 31, 2024 compared to Rs. 3,270 crore and 47.0%, respectively, as on March 31, 2023. The gross and net stage 3 stood at 0.9% and 0.7%, respectively, as on March 31, 2024 compared to 0.9% and 0.7%, respectively, as on March 31, 2023.

Key financial indicators

	FY2021	FY2022	FY2023	FY2024
	Audited	Audited	Audited	Audited
Total income	1,105	1,306	1,610	2,020
PAT	289	357	430	491
Total managed assets	10,925	13,420	16,182	19,933
Return on average managed assets	2.9%	2.9%	2.9%	2.7%
Managed gearing (times)	3.5	3.7	3.9	4.2
Gross stage 3	1.0%	1.0%	0.9%	0.9%
CRAR	54.4%	51.9%	47.0%	44.0%

Source: Aavas' financial results, ICRA Research; Note: Amount in Rs. crore; All figures and ratios are as per ICRA's calculations/adjustments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[4] *Managed assets = Gross assets (including credit provisions on loans) + Off-book portfolio*

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)^	Date and Rating in FY2025	Date and Rating in FY2024	Date and Rating in FY2023				Date & Rating in FY2022			
					Jun 25. 2024	Jan 08, 2024	Feb 24, 2023	Sep 06, 2022	Aug 22, 2022	Jun 29, 2022	Dec 08, 2021	Dec 24, 2020	Oct 30, 2020
1	CP	ST	50.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund-based NHB refinance	LT	3,375.09	3,138.53	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-	-	-
3	Fund-based term loan	LT	17.91	17.91	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	Fund-based cash credit	LT	5.00	5.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
5	NCD	LT	600.00	162.5	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
6	NCD	LT	300.00	0.0	[ICRA]AA (Stable)	-	-	-	-	-	-	-	-

Source: ICRA Research; Note: LT: Long term, ST: Short term; ^ As on June 21, 2024 for fresh NCD and as on May 31, 2024 for other instruments

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple
Commercial paper	Very Simple
Fund-based NHB refinance	Simple
Fund-based term loan	Simple
Fund-based cash credit	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: 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^	**Commercial paper**	NA	NA	NA	50	[ICRA]A1+
INE216P07209	**NCD**	Dec-31-2020	Repo Rate Linked	Dec-31-2025	100	[ICRA]AA (Stable)
INE216P07233	**NCD**	Jul-20-2023	Repo Rate Linked	Jul-20-2028	150	[ICRA]AA (Stable)
NA^	**NCD**	NA	NA	NA	650	[ICRA]AA (Stable)
NA	**Cash credit 1**	Aug-04-2014	NA	NA	5.0	[ICRA]AA (Stable)
NA	**Term loan 1**	Dec-13-2016	NA	Jan-07-2025	2.14	[ICRA]AA (Stable)
NA	**Term loan 2**	Sep-27-2018	NA	Nov-01-2028	15.76	[ICRA]AA (Stable)
NA	**NHB refinance**	2015-2023	NA	NA	3,138.53	[ICRA]AA (Stable)
NA^	**NHB refinance**	NA	NA	NA	236.57	[ICRA]AA (Stable)

*Source: Aavas, ICRA Research; ^Proposed/yet to be placed; Note: Rate of interest not available for term loans; * As on June 21, 2024 for fresh NCD and as on May 31, 2024 for other instruments*

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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