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India Ratings Rates Aham Housing Finance’s Bank Loans at ‘IND BBB-’/Stable

Jul 05, 2024 | Housing Finance Company

Ratings and Research (Ind-Ra) has rated Aham Housing Finance Private Limited’s (AHFPL) bank loan as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along Outlook/Watch	Rating Action
Bank loans	-	-	-	INR1,100	IND BBB-/Stable	Assigned

#details in annexure

Analytical Approach

Ind-Ra has taken a standalone view of AHFPL to arrive at the rating.

Detailed Rationale of the Rating Action

The rating factors in AHFPL’s experienced senior management team as well as adequate capitalisation for the level of operations. It also reflects AHFPL's demonstrated ability to raise capital to support its robust growth plans while keeping the leverage ratio under check. Alongside this, the entity has increased the number of lending relationships and carries an adequate liquidity buffers. The loan book seasoning remains low, as a significant portion of the assets under management (AUM) has been generated over the 12 months ended March 2024. The rating also factors in the company's modest-but-growing scale of operations and significant geographic concentration at end-March 2024.

List of Key Rating Drivers

Strengths

- Adequate capitalisation due to multiple funding rounds
- Experienced management
- Modest PAT but consistent profitable status
- Adequate diversification in funding for its size of business

Weaknesses

- Small scale of operations
- High geographical concentration; unseasoned loan book
- Lending to vulnerable self-employed borrower profile

Detailed Description of Key Rating Drivers

Adequately Capitalisation due to Multiple Funding Rounds: At end-March 2024, AHFPL had an equity base of INR526 million (FY24: Tier I capital of 114.9% and capital adequacy ratio of 115.8%) with a leverage of 0.6x. The company raised INR524.5 million over FY19-FY24 in multiple funding rounds. The capital was raised through warrant issuance to the MD & CEO of the company, the issuance of partly paid share and through private placement of shares to private equity player. In the private placement round in FY23, the company saw participation from investors such as Negen Tech Opportunity Fund, ZNL Growth Fund Scheme 1, LV Angel Fund and Negen Startup Opportunities Angel Fund. The company has an outstanding share warrant of 0.5 million which will get subscribe over the near-to-medium term. Furthermore, the partly paid-up share will also be fully paid providing a visibility with respect to future infusion. The management expects to continue to report over 50% AUM growth over the medium term. Moreover, with a visibility of future capital infusion the capital adequacy ratio will remain adequate to support growth, while the leverage will be contained, according to Ind-Ra.

Experience Management Team: AHFPL's senior management team comprises six personnel including the CEO, the business head, Credit Head and the Collection Head. The company's MD & CEO has over 25 years of experience largely in financial services with expertise in incorporating and scaling up the affordable housing business. The other senior management personnel also have over 20 years of experience in their respective functional domains. While the company does not have a CFO and all the financing and treasury functions are handle by the CEO, Ind-Ra expects the company to fill up the position by senior members as the business scales up. The company is governed by a five-membered board of directors (including two independent directors) with a wide array of experience in banking & financial services, audit, taxation, operations, and risk management.

Modest PAT but Consistent Profitable Status: AHFPL has consistently reported a profit after tax (PAT) since its inception despite high investments toward setting up system and process and for branch expansion. The company's financial performance remained healthy during FY24 with 161% yoy growth in its PAT. The profitability was largely aided by strong net interest income growth, improving operating leverage and contained credit cost. AHFPL's net interest income grew 80.7% yoy at end-March 2024. However, this did not translate into a higher margin on AUM, which was 9.9% in FY24 compared to 10.1% a year ago. In FY24, while the margin was impacted by an increased borrowing cost, its impact was partially mitigated by the increased yield on AUM. The company's return ration remained subdued with a return on assets of 0.07% in FY24 (FY23: 0.04%; FY22: 1.9%). The company plans to achieve a return on assets of about 2.5% over the medium term; the agency believes the control of loan loss provision will be a key monitorable since a significant portion of the portfolio has low seasoning, and any negative surprises can derail the momentum. Furthermore, as the company is operating at a low leverage, the impact of the cost of borrowing on absolute profitability is low.

Adequate Diversification in Funding for its Size of Business: AHFPL has a relationship with 10 lenders, which include a mix of public sector banks, non-banking finance companies, housing finance companies and National Housing Bank (NHB; debt rated at 'IND AAA'/Stable). The borrowings mix is skewed towards bank's term loan which accounted for 68.3% of the total borrowings at FYE24. The funding from non-banks accounted for 27.2% of the overall mix while that from NHB remained low at 4.5% at end-March 2024. AHFPL plans to improve the funding mix by tapping into capital market borrowing through the issuance of non-convertible debt and commercial paper over the medium term.

Small Scale of Operation: The company has a limited track record and a small scale of operations when compared to the industry's size**.** AHFPL is in the early stage of its growth, with AUM of INR866.8 million at end-March 2024. Retail home loans constituted 51.8%, retail mortgage loans constituted 35.2%, renovation accounted for 5.2% and construction finance accounts for 7.8% of the AUM at end-March 2024. AHFPL operates through 20 branches across three states. Although the company entered a new state in FY23, its primary focus is on deepening its presence in existing geographies. In terms of sourcing, a large part is done in-house or through connectors' network, with only about 4.5% coming from the direct selling agents (DSA) network. AHFPL focuses on retail loans, with an average loan size of INR1.2 million, which indicates a granular portfolio. The company has a co-lending agreement with Hinduja Housing Finance Ltd, which, even though is in the early stages, will help the company grow using a capital-light model, according to Ind-Ra.

High Geographical Concentration; Unseasoned Loan Book: The company's portfolio is highly concentrated in Tamil Nadu which accounts for 65.1% of the total AUM, though the share has come down from 74% in FY21. Subsequently, it has enhanced its presence across different geographies, and in FY24, it operated in three states. This has been accompanied by a commensurate increase in the team, including on-the-field executives. The overall team size increased to 108 employees in December 2023 from 40 in March 2022. The company intends to add around 25 branches in FY25 which will enable it to deepen its presence in its geography and to further diversify its presence. Furthermore, the seasoning in the portfolio is low as the amount disbursed in FY24 accounts for nearly 56% of the total AUM. Given the limited seasoning of its book, Ind-Ra believes the control over softer bucket migration needs to be actively monitored with the rising scale.

Lending to Vulnerable Self-Employed Borrower Profile: AHFPL mainly lends to borrowers in the self-employed category (61.9% of the portfolio at FYE24) and the balance to those belonging to the salaried segment. The average ticket size of housing loans is around INR1.2 million. The agency believes lending to the under-banked customers with limited documented income proof carries a higher risk, and thus, assessment of the credit worthiness along with strong monitoring and collection focus is essential to avoid asset quality shocks. However, the company has developed an in-house scorecard based on 40 parameters, trying to capture the borrower's income profile in a more holistic way. The company's gross stage 3 asset stood at 0.56% in FY24 (FY23: 0.53%; FY22: nil). Its stage 3 provision stood at 22%, lower than most of its peers'. With the low loan book seasoning, the risk of delinquency remains high and could lead to a ramp-up in the provisioning, thereby hampering the profitability.

Liquidity

Adequate: AHFPL had a cumulative surplus in all time frames up to one-year of structural liquidity at end-March 2024. However, on stressing the inflows at end-March 2024, there is a negative gap in one-year and above bucket which can be met by un-utilise line of INR87.4 million. As a practice, AHFPL plans to keep two months of disbursements and debt repayment in form of on-balance sheet liquidity along with undrawn bank lines. At end-March 2024, AHFPL had an unutilised line of INR87.4 million in addition to on-balance sheet liquidity (unencumbered cash and fixed deposits) of INR83.6 million, which is adequate to cover debt repayments due in over the next three months.

Rating Sensitivities

Positive: Significant growth in the franchise while maintaining the asset quality and adequate liquidity while diversifying the funding profile could lead to a positive rating action.

Negative: An inability to materially expand the franchise, deterioration in the liquidity buffers and asset quality, a decline in profitability, and the leverage exceeding 3.0x on a sustained basis could lead to a negative rating action.

About the Company

AHFPL was incorporated in November 2017. It commenced its operation in January 2020 after receiving a certificate of registration from NHB to operate as a non-deposit accepting housing finance company. AHFPL caters to the housing finance needs of low/middle-income groups, primarily from Tier 1 and Tier 2 cities. The company's portfolio comprises loans for the purchase of a home, construction of a house, repair/renovation, and LAP. As of 31 March 2024, AHFPL has an AUM of INR866.8 million with a customer base of 707 borrowers. It has 20 branches spread across three states, with 65% of the AUM concentrated in Tamil Nadu. The company was founded by Venkatesh Kannappan, who holds 25.3% of the company as of the end of March 2024.

Key Financials Indicators

Particulars	**FY24**	**FY23**
Total assets (INR million)	846	579
Total equity (INR million)	526	219
Net profit (INR million)	0.52	0.2
Return on average assets (%)	0.07	0.04
Debt/Equity (x)	0.58	1.6
Tier 1 capital (%)	114.9	63.9
Source: AHFPL, Ind-Ra's analysis		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating
Bank loans	Long-term	INR1,100	IND BBB-/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Complexity Indicator	Complexity Indicator
Bank loans	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

APPLICABLE CRITERIA

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

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