

Aavas Financiers Limited

June 22, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term Bank Lines	1,240	1,240	[ICRA]A+; reaffirmed, outlook revised to positive from Stable
Non convertible Debenture Programme	350	350	[ICRA]A+; reaffirmed, outlook revised to positive from Stable
Commercial Paper	50	50	[ICRA]A1+ reaffirmed
Total	1,640	1,640	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) for the Rs 1,240 bank lines and the Rs 350 crore non-convertible debenture programme of Aavas Financiers Limited (Aavas). The outlook on the long-term ratings has been revised from Stable to Positive. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 50 crore commercial paper programme of Aavas.

Rationale

The ratings factor in the company's demonstrated ability to profitably grow the business (AUM grew at a CAGR of 69% over the last three years) while maintaining good asset quality (gross NPAs at 0.3% as on March 31, 2018 as compared with 0.8% as on March 31, 2017; even on a one-year lagged basis, the asset quality indicators are comfortable). Though the book is relatively less seasoned, good capitalisation profile (supported by a recent capital infusion of Rs. 441 crore by private equity investors and management in FY2018) and healthy profitability indicators (return on average assets of 3.0% in FY2018) provide comfort. The ratings also take into account the company's experienced senior management team and its adequate credit appraisal norms along with good internal control systems supported by latest technological implementations to support the company's growth targets.

The company's credit profile, however, is constrained by its relatively modest track record of operations in relation to the asset class, its focus on a relatively vulnerable target segment of self-employed and low and middle-income borrowers, its high growth plans and the geographical concentration risk with 46% of the portfolio as on March 31, 2018 (48% as on March 31, 2017) being in Rajasthan. Aavas's portfolio is characterised by small ticket loans (average ticket size of Rs 8.6 lakh as on March 31, 2018) in semi-urban and rural areas to borrowers without formal income proofs and moderate loan to value ratios (around 50% as on March 31, 2018). While the Government's thrust on 'Housing for All' and the expected increase in the supply of houses in the affordable segment is likely to provide ample growth opportunities, the company's ability to maintain credit underwriting quality, while growing as per the business plans, will remain the key rating sensitivity.

Outlook: Positive

The revision in outlook is based on Aavas' strengthened financial risk profile with an improved capitalization position (net worth of Rs 1,098 crore with gearing of 2.4x, as on March 31, 2018 supported by a recent equity infusion). In ICRA's opinion, prudent capitalisation is a key factor in mitigating the vulnerabilities associated with the company's portfolio and the target borrower profile.

The outlook may be revised to Stable if there is significant increase in gearing. The outlook may be revised to 'Negative' if there is a significant deterioration in the asset quality and hence profitability metrics.

Key rating drivers

Credit strengths

- **Demonstrated ability to profitably grow business:** The company has grown at a rapid pace over the past three years with AUM increasing at a CAGR of 69%. Despite the high growth, Aavas has been able to maintain its profitability profile and reported a return on average assets of 3.0% in FY2018 (2.8% in FY2017) supported by good net interest margins, moderate operating expenses and low credit costs.
- **Experienced management team with expertise in housing finance; adequate internal controls and systems:** The company's management team 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. It has an end-to-end in-house model of operations covering sourcing to collection activities and does not employ any direct selling agents (DSAs). ICRA expects the company to continue to improve its processes and systems in line with the growth in business volumes.
- **Good capitalisation profile supported by equity infusion in FY2018:** Aavas' capitalisation profile remained comfortable with gearing of 2.4 times (3.2 times as on March 31, 2017) and capital to risk weighted assets ratio (CRAR) of 61.6% as on March 31, 2018 (46.7% as on March 31, 2017) supported by a capital infusion of Rs. 441 crore by private equity investors and Aavas' management in FY2018, adequate internal accruals and the low risk weights on low ticket housing loans. ICRA expects the company to maintain prudent gearing level going forward.
- **Good asset quality indicators, albeit on a lower seasoned book:** Aavas' asset quality remained under control with gross NPAs of 0.34% as on March 31, 2018 (0.79% as on March 31, 2017) and net NPAs of 0.26% (0.60% as on March 31, 2017) on the strength of good underwriting norms, collection infrastructure and improved analytical systems. Given the high pace of growth, gross NPA on a 1-year lagged basis would have been 0.5%, which is better than the industry average. However, the company's portfolio vulnerability remains high given its target borrower profile and low seasoning of the portfolio. Thus, delinquencies in the softer buckets are likely to remain volatile. Nevertheless, ICRA does not expect losses, in case of defaults, to be high given the secured nature of the company's lending with moderate loan to value ratio at origination (around 50% as on March 31, 2018), most of the properties being self-occupied, and the company being covered under the SARFAESI Act.
- **Comfortable liquidity position and diversified funding mix:** With a significant proportion of its borrowings being in the form of long term loans from banks and refinance from National Housing Bank (NHB) the company had a positive cumulative mismatch in its short-term asset liability profile as on March 31, 2018. The company's liquidity profile is further supported by adequate sanctioned and unutilised bank lines. It has a diverse funding mix including bank borrowings, NCDs and NHB refinance, with securitization and assignments, given that a significant proportion of the portfolio qualifies for priority sector lending, thereby providing an additional funding source. Also, Aavas has been able to raise funds at fairly competitive rates.

Credit challenges:

- **High geographical concentration-** Rajasthan accounted for 46% of the company's total portfolio as on March 31, 2018 (48% as on March 31, 2017), reflecting considerable geographical concentration. With the company planning to penetrate further into the deeper pockets of the state, the share of Rajasthan in the portfolio is expected to remain in a similar range going forward as well. However, the overall geographical diversity is likely to improve over the medium term with the company gradually expanding in to other states. The company operated through 165 branches

as on March 31, 2018 (111 as on June 30, 2017), spread across Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Delhi, Haryana, Uttar Pradesh- and Chhattisgarh.

- **Relatively vulnerable borrower profile-** Aavas' operations are focussed on low and middle income self-employed borrowers (69% of the portfolio as on March 31, 2018), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. However, considering the secured nature of the portfolio with moderate loan to value ratios (50% as of March 2018) and the assets being largely self-occupied residential properties along with the low-ticket size (Rs. 8.6 lakh as on March 31, 2018) its losses on default are expected to be limited. The company has adequate risk management tools and portfolio monitoring systems, as reflected in the healthy asset quality indicators.
- **High pace of growth:** The company has grown at a high pace over the past three years with AUM growing at a CAGR of 69% during FY2016 to FY2018. The growth momentum is likely to continue going forward though the pace of growth could moderate to around 25-30% over the medium term. The company's ability to maintain asset quality and profitability along with high growth plans remains a key rating sensitivity. Also, given the relatively higher operational intensity associated with the target segment, the company's ability to scale up its manpower, processes and systems in line with growth would remain a key monitorable.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Housing Finance Companies](#)

About the company:

Aavas Financiers Limited (erstwhile Au Housing Finance Limited) was incorporated as a subsidiary of Au Financiers (India) Limited (now Au Small Finance Bank (AuSFB)) in February 2011 for providing housing finance in rural and semi-urban areas. The company formally started its operations in March 2012 and is headquartered in Jaipur, Rajasthan.

AuSFB sold its stake in Aavas to private equity investors – Kedaara Capital and Partners Group –in June 2016 to fulfill the Reserve Bank of India's criteria for conversion to a small finance bank. The company's shareholders included Kedara Capital (51.8%), Partners Group (35.2%), AuSFB (7.2%) and Directors/Management/ Employees (5.6%) as on March 31, 2018.

Aavas primarily provides home loans to customers in the semi-urban and rural areas. The company is focussed on the low cost and affordable housing segment, targeting self-employed and salaried customers in the informal segment, who otherwise have limited access to formal lending channels in the absence of proper income documents and/or limited credit history. The company currently operates in eight states (Rajasthan, Maharashtra, Madhya Pradesh, Gujarat, Chhattisgarh, Haryana, Delhi and Uttar Pradesh) and had assets under management of Rs. 4,073 crore, as on March 31, 2018.

Aavas reported profit after tax of Rs. 93 crore on a total managed asset base of Rs. 4,713 crore in FY2018 compared to profit after tax of Rs. 58 crore on a managed asset base of Rs. 3,011 crore for FY2017. Aavas' gross and net NPAs stood at 0.34% and 0.26% respectively, as on March 31, 2018.

Key Financial Indicators

Amounts in Rs. Crore	FY 2016	FY 2017	FY2018
PAT	32	58	93
Net Worth	203	566	1098
Assets under management	1,680	2,694	4,073
Total Assets	1,713	2,451	3,817
Total Managed Assets	1,939	3,011	4,713
Return on Average Assets	2.49%	2.78%	2.97%
Return on Average Equity	21.05%	15.04%	11.16%
Gearing (times)	7.3	3.2	2.4
CRAR	27.52%	46.72%	61.55%
Gross NPA %	0.55%	0.79%	0.34%
Net NPAs%	0.42%	0.60%	0.26%
Net NPA/Net worth %	3.04%	2.30%	0.75%

Source: Aavas Financiers Limited, ICRA research

Rating history for last three years:

Current Rating (FY2019)				Chronology of Rating History for the past 3 years						
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Jun 2018	Apr 2018	FY2018 Dec 2017	Sep 2017	FY2017 Nov 2016	Apr 2016	FY2016 Mar 2016
1 NCD	Long Term	350.00	350.00	[ICRA]A+	[ICRA]A+	[ICRA]A+	[ICRA]A+	[ICRA]A	[ICRA]A	[ICRA]A
				(Positive)	(Stable)	(Stable)	(Stable)	(Positive)	(Stable)	(Stable)
2 Long Term Bank Loans	Long Term	1,240.00	1,240.00	[ICRA]A+	[ICRA]A+	[ICRA]A+	[ICRA]A+	[ICRA]A	[ICRA]A	[ICRA]A
				(Positive)	(Stable)	(Stable)	(Stable)	(Positive)	(Stable)	(Stable)
3 Commercial Paper	Short Term	50.00	50.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ NA	NA	NA	NA	NA

Source: ICRA research

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE216P07100	Non-convertible Debentures	2-Sep-16	9.84%	20-Mar-20	50	[ICRA]A+(Positive)
INE216P07142	Non-convertible Debentures	11-Oct-16	8.65%	10-Oct-19	100	[ICRA]A+(Positive)
INE216P07126	Non-convertible Debentures	20-Dec-16	8.65%	20-Oct-20	50	[ICRA]A+(Positive)
INE216P07134	Non-convertible Debentures	18-Jul-17	8.28%	18-May-22	130	[ICRA]A+(Positive)
n/a	Non-Convertible Debenture	Yet to be placed	n/a	n/a	20	[ICRA]A+(Positive)
n/a	Term Loan 1	19-Sep-17	n/a	19-Dec-23	46.52	[ICRA]A+(Positive)
n/a	Term Loan 2	5-Jun-13	n/a	21-Jan-21	10.25	[ICRA]A+(Positive)
n/a	Term Loan 3	24-Sep-15	n/a	28-Mar-26	21.53	[ICRA]A+(Positive)
n/a	Term Loan 4	25-Sep-17	n/a	1-Mar-28	100	[ICRA]A+(Positive)
n/a	Term Loan 5	22-Aug-13	n/a	31-Aug-20	8.68	[ICRA]A+(Positive)
n/a	Term Loan 6	12-Apr-14	n/a	30-Jun-21	12.5	[ICRA]A+(Positive)
n/a	Term Loan 7	7-Jan-13	n/a	16-Jun-20	7.75	[ICRA]A+(Positive)
n/a	Term Loan 8	13-Oct-14	n/a	31-Mar-22	3.08	[ICRA]A+(Positive)
n/a	Term Loan 9	17-Feb-16	n/a	31-Mar-26	78.55	[ICRA]A+(Positive)
n/a	Term Loan 10	10-Mar-15	n/a	30-Jan-20	5.83	[ICRA]A+(Positive)
n/a	Term Loan 11	24-Mar-14	n/a	30-Apr-19	2.5	[ICRA]A+(Positive)
n/a	Term Loan 12	5-Dec-16	n/a	30-Nov-21	14.06	[ICRA]A+(Positive)
n/a	Term Loan 13	12-Jan-15	n/a	30-Apr-20	17.91	[ICRA]A+(Positive)

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
n/a	Term Loan 14	31-Mar-15	n/a	31-Jul-23	6.88	[ICRA]A+(Positive)
n/a	Term Loan 15	31-Jul-13	n/a	31-Dec-20	3.93	[ICRA]A+(Positive)
n/a	Term Loan 16	10-Apr-14	n/a	10-Jun-18	1.25	[ICRA]A+(Positive)
n/a	Term Loan 17	23-Nov-13	n/a	31-Dec-20	9.94	[ICRA]A+(Positive)
n/a	Term Loan 18	3-Nov-15	n/a	31-Jan-26	80.7	[ICRA]A+(Positive)
n/a	Term Loan 19	1-Sep-15	n/a	30-Sep-25	50	[ICRA]A+(Positive)
n/a	Term Loan 20	5-Sep-14	n/a	31-Oct-17	6.88	[ICRA]A+(Positive)
n/a	Term Loan 21	7-Sep-16	n/a	1-Mar-23	26.25	[ICRA]A+(Positive)
n/a	Term Loan 22	29-Sep-15	n/a	30-Nov-25	20.83	[ICRA]A+(Positive)
n/a	Term Loan 23	18-Mar-17	n/a	31-Mar-27	25	[ICRA]A+(Positive)
n/a	Term Loan 24	25-Nov-16	n/a	30-May-22	16	[ICRA]A+(Positive)
n/a	Term Loan 25	6-Aug-14	n/a	6-Mar-22	9.99	[ICRA]A+(Positive)
n/a	Term Loan 26	17-Sep-15	n/a	30-Jul-25	40.26	[ICRA]A+(Positive)
n/a	Term Loan 27	4-Jul-17	n/a	4-Jul-27	50	[ICRA]A+(Positive)
n/a	Term Loan 28	16-Oct-14	n/a	31-Dec-19	4.75	[ICRA]A+(Positive)
n/a	Term Loan 29	14-Dec-15	n/a	28-Feb-21	11	[ICRA]A+(Positive)
n/a	Term Loan 30	23-Mar-16	n/a	23-Sep-21	13.33	[ICRA]A+(Positive)
n/a	Term Loan 31	19-Jan-16	n/a	31-Dec-25	42.14	[ICRA]A+(Positive)
n/a	Term Loan 32	20-Mar-15	n/a	31-Mar-20	9.88	[ICRA]A+(Positive)
n/a	Term Loan 33	23-Feb-16	n/a	31-Mar-26	43.05	[ICRA]A+(Positive)
n/a	Term Loan 34	13-Nov-14	n/a	28-Feb-22	14.44	[ICRA]A+(Positive)

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
n/a	Term Loan 35	3-Aug-17	n/a	3-Aug-27	50	[ICRA]A+(Positive)
n/a	Term Loan 36	23-Mar-17	n/a	30-Jun-27	55	[ICRA]A+(Positive)
n/a	Term Loan 37	6-Oct-15	n/a	1-Jan-31	43.68	[ICRA]A+(Positive)
n/a	Term Loans (proposed)				65.66	[ICRA]A+(Positive)
n/a	Cash Credit 1	12-Jan-15	n/a	n/a	40	[ICRA]A+(Positive)
n/a	Cash Credit 2	10-Apr-14	n/a	n/a	10	[ICRA]A+(Positive)
n/a	Cash Credit 3	18-Mar-17	n/a	n/a	25	[ICRA]A+(Positive)
n/a	Cash Credit 4	5-Sep-14	n/a	n/a	25	[ICRA]A+(Positive)
n/a	Cash Credit 5	25-Nov-16	n/a	n/a	25	[ICRA]A+(Positive)
n/a	Cash Credit 6	16-Oct-14	n/a	n/a	50	[ICRA]A+(Positive)
n/a	Cash Credit 7	2-Dec-16	n/a	n/a	25	[ICRA]A+(Positive)
n/a	Cash Credit (proposed)				10	[ICRA]A+(Positive)
n/a	Commercial Paper	n/a	n/a	7-365 days	50	[ICRA]A1+

Source: Aavas Financiers Limited

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