

Rating Rationale

August 06, 2024 | Mumbai

Aham Housing Finance Private Limited

'CRISIL BBB-/Stable' assigned to Bank Debt and Non Convertible Debentures

Rating Action

Total Bank Loan Facilities Rated	Rs.50 Crore
Long Term Rating	CRISIL BBB-/Stable (Assigned)

Rs.10 Crore Non Convertible Debentures	CRISIL BBB-/Stable (Assigned)
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Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB-/Stable**' rating to long-term bank facility and non-convertible debentures of Aham Housing Finance Private Limited (Aham Housing).

The rating factors in adequate capitalisation profile of the company and sound risk management systems supported by an experienced leadership team. These strengths are partially offset by small scale, nascency of operations and modest earnings profile.

Aham Housing commenced operations in January 2020 and extends home loans (75% of the loan book as on March 31, 2024), and loans against property (LAP; 25%) to low-income and middle-income borrowers in tier 2/3 towns and rural areas. Its assets under management (AUM) stood at Rs 87 crore as on March 31, 2024, registering 3-year compound annual growth rate (CAGR) of 50%.

The company was founded by Mr Venkatesh Kannappan who is currently the managing director and chief executive officer (MD& CEO) of the company. He comes with extensive experience in the mortgage lending segment. Besides him, there is a strong team of professionals heading different verticals of the company who come with relevant prior experience.

Capitalisation is adequate in relation to the current scale of operations, denoted by a tangible networth of Rs 53 crore and low reported gearing of 0.6 time as on March 31, 2024. In terms of liability franchise, the company's resource mix is backed by 10 lending associations. Of the total borrowings as on March 31, 2024, 75% were from banks and small finance banks, 23% from non-banking financial companies (NBFCs) and housing finance companies (HFCs) and remaining 2% from the National Housing Bank (NHB).

Aham Housing reported gross non-performing assets (GNPAs) of 0.5% as on March 31, 2024. On two-year lagged basis, GNPAs stood at 1.56% on the same date, although on a portfolio with low seasoning. Given the nascency and small scale of business, the company's profitability is modest with profit after tax (PAT) of Rs 0.05 crore in fiscal 2024 compared to Rs 0.02 crore of PAT for the preceding fiscal. Over the medium term, the company's ability to profitably scale its business will be a key monitorable.

Analytical Approach

CRISIL Ratings has consolidated business and financial risk profiles of Aham Housing with its wholly owned subsidiary, Aham Fintech Services Pvt Ltd.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- Adequate capitalisation with low gearing:** Aham Housing's capitalisation is adequate in relation to the scale and nature of its operations. The company's tangible networth and capital adequacy ratio stood at Rs 53 crore and 111.3%, respectively as on March 31, 2024, as compared to Rs 22 crore and 64.6%, respectively, as on March 31, 2023. This improvement was driven by capital infusion of Rs 31.4 crore received in fiscal 2024. Mr Venkatesh Kannappan, the promoter, along with his wife, Mrs Arthy Venkatesh, hold 40.4% stake in the consolidated entity. Since inception, the two have infused Rs 15.52 crore into the company. This promoter funding has been the primary aid to the capital position. As on June 30, 2024, the promoter, friends and family cumulatively held ~90% stake in the company while the remaining ~10% was held by external investors. Additionally, the company is now exploring avenues for raising capital from strategic external investors to support growth and add more pedigree to the investor base.

The company's leverage was low at 0.6 time as on March 31, 2024, and the management aims to maintain it below 5 times over the medium term.

- **Sound risk management systems supported by experienced leadership:** While in its growth phase, the company has developed a sound credit underwriting infrastructure that combines an interview-based assessment with proprietary scoring methodology and consists of a 3-tiered risk management system that encompasses sales, credit and review teams, wherein the review team operates independently of sales pressure and conducts surprise visits before approving the loans. Additionally, all the loans are secured. These measures have enabled the company to maintain a low average bounce rate of ~8% over the past year and consequently, reported GNPA's were also low at 0.45% as on March 31, 2024 (0.52% as on March 31, 2023). On a two-year lagged basis, GNPA's were 1.56% as on March 31, 2024.

These systems have been built based on the leadership team's experience within this segment. Mr Venkatesh Kannappan (MD and CEO) is a first-generation entrepreneur and has experience of over two decades in the field of banking and finance. He was associated with an affordable housing finance company as COO (CEO designate) prior to starting Aham Housing. The current senior management has been with the company since its inception and has played a critical role in expanding the business operations. The company also has an experienced second line, which has helped put in place adequate systems, processes and policies to manage inherent risks in the borrower profile.

Weaknesses:

- **Small scale and early stage of operations:** With four years of operational history, the company has attained AUM base of Rs 87 crore as on March 31, 2024, which marks a growth of 75% over last fiscal. The company's target market comprises low-income and middle-income borrowers residing in tier 2/3 towns and rural areas. As on March 31, 2024, Aham Housing has presence in Andhra Pradesh, Karnataka and Tamil Nadu with 92% of the total portfolio concentrated in Andhra Pradesh and Tamil Nadu. The average ticket size was around Rs 12.2 lakh on the same date. The behavioural tenure of loans is typically around seven years and the portfolio is yet to see a full cycle and remains low on seasoning. A significant portion of the loan book has originated post the onset of fiscal 2022. Therefore, sustenance of asset quality at sound levels while the portfolio scales and seasons, remains to be seen.

- **Modest profitability:** Aham Housing's profitability remains modest with PAT of Rs 0.05 crore in fiscal 2024, against Rs 0.02 crore for fiscal 2023. Return on managed average assets was 0.07% for fiscal 2024 against 0.04% for fiscal 2023.

Being in its growth phase, the company's operating expenses have remained elevated – thereby constraining its overall earnings profile. For fiscal 2024, operating expense to average managed asset ratio was 11.5% as compared to 12.2% in fiscal 2023, primarily comprising expenses incurred on branch expansion and employee cost. With growth in asset base and economies of scale being achieved, this metric is expected to correct and stabilise at lower levels.

In terms of other profitability metrics, net interest margins have remained stable at 7.8% in fiscal 2024 as compared to 7.7% in fiscal 2023. Recently, the company ventured into co-lending and direct assignment transactions and distribution of insurance products as an intermediary, which is expected to diversify its revenue base.

The company's ability to improve earnings alongside sustained scale up in loan portfolio needs to be demonstrated over time.

Liquidity: Adequate

As on March 31, 2024, the asset liability maturity profile had positive cumulative mismatches in all the time buckets over the succeeding one year period. It had Rs 11.58 crore of cash and cash equivalent (including unencumbered fixed deposits of Rs 1.31 crore and unutilised lines of Rs 8.74 crore) as on June 30, 2024, which is sufficient to cover six months of repayment of Rs 5.35 crore.

Outlook: Stable

Aham Housing is expected to maintain adequate capitalisation over the medium term while continuing to benefit from sound risk management systems and presence of an experienced management team. Its ability to maintain asset quality and improve earnings, as the loan book seasons and scales, will be a key monitorable.

Rating Sensitivity factors

Upward factors

- Substantial and sustained scale up in franchise while maintaining sound asset quality
- Improvement in earnings profile with return on managed assets improving to, and remaining around, 2% on a steady state basis.

Downward factors

- Deterioration in capital structure, with sharp and sustained increase in gearing or decline in capital to risk (weighted) assets (CRAR) ratio
- Deterioration in asset quality evidenced by GNPA rising to, and remaining above, 3% thereby impacting earnings profile.

About the Company

Aham Housing is a housing finance company that provides home loans and loans against property. It was incorporated in November 2017 and commenced operations in January 2020 on receipt of its HFC license. The company is led by Mr Venkatesh Kannappan as its MD and CEO who has over two decades of expertise in finance and sales, among other subjects. The promoter and his wife hold around 40.4% of the shareholding in Aham Housing as on March 31, 2024.

The AUM of the company grew to Rs 87 crore as on March 31, 2024, from Rs 16 crore as on March 31, 2021. It reported PAT of Rs 0.05 crore and total income (net of interest expense) of Rs 8.4 crore for fiscal 2024, against Rs 0.02 crore and Rs 5.7 crore, respectively, for fiscal 2023.

Key Financial Indicators

As on/for the period ending	Unit	March 2024	March 2023	March 2022
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Total assets	Rs crore	85	58	33
Total tangible networkth	Rs crore	53	22	21
Gearing	Times	0.6	1.6	0.6
PAT	Rs crore	0.05	0.02	0.5
Return on assets	%	0.07	0.04	1.85

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Non-convertible debentures*	NA	NA	NA	10	Simple	CRISIL BBB-/Stable
NA	Proposed long term bank loan facility	NA	NA	NA	50	NA	CRISIL BBB-/Stable

*Yet to be issued

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Aham Fintech Services Pvt Ltd	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	50.0	CRISIL BBB-/Stable		--		--		--		--	--
Non Convertible Debentures	LT	10.0	CRISIL BBB-/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	50	Not Applicable	CRISIL BBB-/Stable

Criteria Details

Links to related criteria

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for Consolidation](#)

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