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India Ratings Affirms Aditya Birla Housing Finance's NCDs and Bank Loans at 'IND AAA'/Stable; Rates Additional CPs 'IND A1+

Mar 27, 2024 | Housing Finance Company

India Ratings and Research (Ind-Ra) has taken the following rating actions on Aditya Birla Housing Finance Limited's (ABHFL) debt instruments:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Commercial paper#	-	-	-	INR15	IND A1+	Assigned
Bank loans	-	-	-	INR200	IND AAA/Stable	Affirmed
Commercial paper#	-	-	-	INR15	IND A1+	Affirmed
Non-convertible debentures*	-	-	-	INR78.55	IND AAA/Stable	Affirmed
Subordinated debt*	-	-	-	INR10	IND AAA/Stable	Affirmed
Principal protected market-linked debenture ^	-	-	-	INR5	IND PP-MLD AAA/Stable	Affirmed

* Details in Annexure
# Maturity 7-365 days
^ Yet to be issued

The rating of market-linked debentures is an ordinal assessment of the underlying credit risk of the instrument and does not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that the coupon payment on these instruments will be based on the performance of the reference index (to be detailed in the information memorandum of the issue).

Analytical Approach

Analytical Approach: The ratings reflect the credit profile of Grasim Industries Limited's (GIL; 'IND AAA'/Stable), which is ultimate parent of ABHFL through Grasim's ownership (52.69% stake) in Aditya Birla Capital Ltd (ABHFL's parent). The affirmation reflects Ind-Ra's expectation of the financial services segment to continue to be highly important for GIL and the larger Aditya Birla (AB) group franchise from a long-term perspective.

Detailed Rationale of the Rating Action

Ind-Ra understands that the financial services business remains a key focus area for the AB group (including GIL), and it has a close oversight from the group's top management. Although, its present share in the consolidated balance sheet and the profitability of the ultimate parent and the group is modest. Further, the financial services business continues to be among the core businesses for the AB group and it will maintain its majority ownership in the business, and as such, it intends to provide all the required support to the same.

On 11 March 2024, the board of directors of ABCL announced the amalgamation of ABFL with ABCL for complying with the upper layer norms of listing, with no change in shareholding, management and control of ABCL. ABCL would be the surviving entity moving from holding to operating company, subject to all regulatory approvals. Post the amalgamation, Ind-Ra expects no change in ABHFL's Holding Structure, where ABCL (holding 100% in ABHFL) would be immediate the parent and GIL be the ultimate parent. ABHFL has been growing significantly post FY22, expanding the franchise in affordable housing and loan against property (LAP) segment, along with catering to prime borrowers in similar segment. ABHFL has seen improvement in profitability buffers and has been able to leverage on AB group's ecosystem amid stable asset quality.

List of Key Rating Drivers

Strengths
- Stronger parent with high propensity and ability to support
- Stable funding profile
- Diversified loan book; increasing contribution from affordable segment
- Improved asset quality; although remains monitorable with seasoning of recent book
- Improvement in profitability to remain monitorable with scale

Weakness
- Leverage to be monitored with growth being higher than internal accruals

Detailed Description of Key Rating Drivers

Stronger Parent with High Propensity and Ability to Support: The ratings factor in Ind-Ra's expectation that the ultimate parent, GIL, will provide timely financial support to ABCL's financial services business, and consequently, to ABHFL. AB group holds 68.98% of ABCL's equity shares via promoters and the promoter group companies as of 31 December 2023 with GIL being the majority shareholder holding 52.69% stake. Furthermore, the AB group considers ABHFL's lending business to be critical to its long-term growth prospects, which is evident from the group's regular equity infusions into ABHFL through ABCL. There also exists board overlap between GIL and the financial services arm, ABCL, which houses ABHFL.

AB group (including GIL) has provided capital support to the ABCL group; of the INR 30 billion capital raised by ABCL duringFY24, AB group infused INR12.5 billion (of which INR10 billion was by GIL). Considering ABCL's flexibility to raise capital, along with internal cash accruals, Ind-Ra expects capitalisation of the ABCL group to remain comfortable. Ind-Ra believes AB group (including GIL) would continue to have a majority ownership in

ABCL. Financial services will remain the key focus area for AB group over the medium term. ABCL also benefits from being a part of AB Group, in terms of synergies derived from various businesses and cross-selling opportunities to the entire AB Group ecosystem.

Although ABHFL has a moderate contribution to the group's consolidated financial services business, it operates in a high-growth segment and complements the group's philosophy of providing complete product suits in the financial services segment.

Stable Funding Profile: Banks form a larger part of ABHFL's funding requirement (9MFY24: 42.5%, FY23: 53%; FY22: 58%; FY21: 75.6%), as they help manage duration on liability side. However, the company is diversifying its funding sources by borrowing from National Housing Bank (NHB; 'IND AAA'/Stable); 9MFY24: 22.5%, FY23: 17.6%; FY22: 14.5%) and the company will maintain NHB's current share in the overall borrowing mix. NHB's funding would help manage overall cost of funds and drive competitiveness in a rising interest rate scenario. The proportion of commercial paper in the borrowing mix has also increased to 7.5% at 9MFYE24 (FY23: 1.8%), and management plans to keep the commercial paper share in the same ratio.

Diversified Loan Book; Increasing Contribution from Affordable Segment: ABHFL's target segment through prime loans (home loan and LAP – 49% of the overall portfolio at 9MFYE24) are self-employed customers with a better credit track record, and for the affordable segment (41%) is a mix of salaried and self-employed customers. As per management, ABHFL plans to tap internal group database, to drive business in the prime segment through the AB group ecosystem in the medium term. At end-December 2023, 9% of disbursements took place through the AB group ecosystem.

ABHFL had diversified its loan book across various segments- prime housing (9MFY24: 32%, FY23: 34%; FY22: 36%; FY21: 44%), affordable housing (34%, 34%; 31%; 23%), prime LAP (17%, 17%; 20%; 24%), affordable LAP (7%, 7%; 7%; 4%) and construction finance (10%, 8%; 6%; 4%). Since FY23, ABHFL is investing in technology to improve its process further, leading to a rise in the cost-to-income ratio to 42.2% (FY22: 37.1%; FY21: 39.2%), which has further increased in 9MFY24 (52.9%); the ratio would remain elevated in the near term. ABHFL's AUM, which expanded at 4.7% CAGR over FY19-FY23, has been lower than the industry average and peers. However, during 9MFY24, ABHFL has seen a significant growth in AUM to INR165.4 billion (FY23: INR138.1 billion), with growth coming from overall segment, along with better system and processes. As part of its strategy, ABHFL plans to grow the affordable and prime segment, where home loans would form 65%-68% of the overall AUM, LAP at 22%-25% and construction finance at 12% in the medium term. The share of construction finance in the overall disbursement has been increasing with ABHFL targeting developers with single project, and capping its exposure ticket size at INR0.25 billion.

ABHFL's sourcing is balanced equally between direct channels and direct selling agents; prime lending is largely driven by direct selling agents and branches, while affordable lending is driven by direct channels and branches. ABHFL has added branches to its existing network, with 130 branches as of December 2023, and it plans to expand in its existing geographies. The prime loan segment faces customer retention challenges as it competes heavily with other housing finance companies and banks. To retain customers, the company needs to undertake finer pricing, thus impacting segment margins. The affordable segment would be a key focus area for ABHFL for incremental growth as it provides adequate risk adjusted margin and origination is through own sourcing, providing better retention benefit.

Improved Asset Quality; Although Remains Monitorable with Seasoning of Recent Book: ABHFL's gross non-performing assets improved to 2.2% in 9MFY24 (FY23: 3.2%; FY22: 2.0%), largely due to improved underwriting of loans as ABHFL has invested in the IT system for onboarding customers, which further supported by in-house collections team. On a segmental basis, the pressure was higher for prime home loans than affordable home loans. ABHFL, at end-December 2023, around 3.5% (FY23: 5.4%, FY22: 7.3%) of the book had been restructured. Incrementally, the collection efficiency remains at 99.99% in 9MFY24 (FY23: 99.9%, FY22: 98.8%). ABHFL maintained a provision coverage ratio of 34% on the overall stressed assets. The underlying portfolio is yet to be seasoned and through-the-cycle credit costs are yet to be established for ABHFL. Ind-Ra believes the asset quality performance would be a key monitorable for ABHFL, as the loan book seasons.

Improvement in Profitability to Remain Monitorable with Scale: As per Ind-Ra's calculation, ABHFL's margins improved to 4.8% in FY23 (FY22: 4.1%), and remained at 4.8% at 9MFY24, due to a 170bp increase in the lending rate with increased focus on the affordable segment. This margins expansion has led to an improvement in the profitability, despite elevated funding cost resulting from an increase in the interest rates to 7.65% in 3QFY24 (FY23: 6.6%; FY22: 6.5%). ABHFL's operating expense increased, due to its investments in technology during the year as indicated by operating expense to total assets of 2.7% in 9MFY24 (FY23: 2.1%; FY22: 1.5%). In the medium term, its margin expansion will largely be driven by the increasing proportion of the affordable housing and non-housing segments, which could pose credit challenges during an economic downcycle, and remains monitorable with scale. ABHFL continues to face competitive pressure from banks, largely in the prime segment, which have incrementally been catering to self-employed borrowers, and thereby could pose margin and growth challenges to ABHFL. Ind-Ra expects the growth momentum to continue over the medium term amid high competition from banks.

The return on assets has remained stable at 1.9% in 9MFY24 (FY23: 1.8%; FY22: 1.6%); however, sustaining the same would be dependent on managing slippages from softer buckets and the loans moving out from the restructured book.

Leverage to be Monitored with Growth being Higher than Internal Accruals: ABHFL's capitalisation remained adequate with tier 1 ratio of 16.6% in 9MFY24 (FY23: 18.0%; FY22: 19.4%) and equity/total assets at 13.1% (14.0%; 13.7%). The AB group remains committed to making regular capital infusions in ABHFL to support its growth plans. ABHFL's gross leverage (debt/equity) remained high at 6.6x in 9MFY24 (FY23: 6.1x; FY22: 6.2x). Given the growth plans of ABHFL, Ind-Ra expects equity infusion in near term to help ABHFL to maintain adequate capital buffers and leverage at current level.

Liquidity

Adequate

ABHFL has cumulative no gaps in less than one-year asset-liability bucket and asset-liability management remaining behavioural in nature. At end-December 2023, ABHFL had unutilised lines of INR20.8 billion, which is adequate to pay three months of debt repayments of INR19.7 billion. Moreover, ABHFL can tap the broader group's liquidity, which would be sufficient to support short-term mismatches in a tight liquidity situation, if required.

Rating Sensitivities

Negative: Developments that could, individually or collectively, lead to a negative rating action include:
- dilution of support expectations in terms of equity capital or liquidity in a timely manner, which could be on account of weakened commercial prospects, weak operating/financial performance or weakening of GIL's credit profile,
- any material deterioration in the standalone profile of ABHFL i.e. sustained below-average operating performance, inability to manage the asset quality as the book seasons out over the medium term resulting in higher-than-expected losses, weakened liability or liquidity profile, or diminished business prospects, or any other adverse impact,
- ABHFL's gross leverage exceeding 9x, on a sustained basis, with the existing loan portfolio structure.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on ABHFL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

ABHFL, which commenced operations in October 2014, is a subsidiary of ABCL. The AB group is among the Fortune 500 league companies. ABHFL is largely focused on housing loans and LAP to the retail segment and had AUM of INR136 billion at end-March 2023. Its business is largely complementary to Aditya Birla Finance Limited's ('IND AAA'/Stable) diversified lending business. ABHFL benefits from over 3,400 channel partners for retail loan sourcing.

ABHFL is a step-down subsidiary of GIL through the ultimate parent's 52.69% shareholding in ABCL as of December 2023. On the other hand, the promoters and the public hold 17.1% and 28.95%, respectively.

KEY FINANCIAL INDICATORS

Particulars	**FY23**	**FY22**
Total assets (INR billion)	140.7	125.3
Total equity (INR billion)	19.6	16.6
Net profit (INR billion)	2.4	1.9
Return on average assets (%)	1.8	1.6
Tier 1 capital (%)	18.0	19.4
Gross non-performing asset (%)	3.2	1.9
Source: ABHFL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Outlook**				
	Rating Type	**Rated Limits (billion)**	**Rating**	**20 October 2023**	**16 May 2023**	**31 March 2023**	**4 April 2022**	**5 April 2021**
Issuer rating	Long-term	-	-	WD	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
Non-convertible debentures	Long-term	INR78.55	IND AAA/Stable	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Subordinated debt*	Long-term	INR10	IND AAA/Stable	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Commercial paper	Short-term	INR30	IND A1+	-	IND A1+	IND A1+	IND A1+	IND A1+
Bank loans	Long-term	INR200	IND AAA/Stable	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Principal protected market-linked debenture	Long-term	INR5	IND PP-MLD AAA/Stable	-	IND PP-MLD AAA/Stable	IND PP-MLD AAA/Stable	IND PP-MLD AAA/Stable	IND PP-MLD AAA /Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Level
Bank loan	Low
Non-convertible debentures	Low
Subordinated debt	Medium
Commercial paper	Low
Principal protected market-linked debenture	High

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

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Rated Amount (billion)	Rating/Outlook
Non-convertible debenture	INE831R07011	22 March 2016	8.95%	20 March 2026	INR0.2	IND AAA/Stable
Non-convertible debenture	INE831R07276	17 April 2020	8%	17 May 2023	INR4	WD (paid in full)
Non-convertible debenture	INE831R07284	11 September 2020	6.05%	8 September 2023	INR0.5	WD (paid in full)

Non-convertible debenture	INE831R07292	18 March 2021	5.99% p.a. (275bp spread over benchmark), Benchmark to be reset on quarterly basis. Coupon payable annually and on maturity. The initial fixing for the first coupon is set as the average rate of 3Month T-bill (FBIL benchmark) from 25 February 2021 to 10 March 2021 i.e. 3.24% plus 275bp (spread) to arrive at an initial coupon rate of 5.99%	15 March 2024	INR2.5	WD (paid in full)

			The first interest payment is set as an average (simple) rate of previous four quarters reset coupon rate e.g. Coupon rate to be paid on 18 March 2022 is the average of coupon rate on 18 March 2021 (initial coupon) and the rate computed on the reset date being 18 June 2021, 18 September 2021 and 18 December 2021			
Non-convertible debenture	INE831R07300	16 July 2021	The initial fixing for the first coupon is set as the average rate of three-month T-bill (FBIL Benchmark) from 24 June 2021 to 7 July 2021	16 July 2024	INR2.5	IND AAA/Stable
Non-convertible debenture	INE831R07318	24 January 2022	6.70%	22 January 2027	INR2.5	IND AAA/Stable

Non-convertible debenture	INE831R07326	21 March 2022	The initial fixing for the first coupon is set as the average rate of 3Month T-bill (FBIL Benchmark) from 24 February 2022 to 10 March 2022 i.e. 3.76% plus 181bp (spread) to arrive at an initial coupon rate of 5.57% p.a.	21 March 2025	INR3.4	IND AAA/Stable
Non-convertible debenture	INE831R07334	25 October 2022	8.15%	25 October 2032	INR6	IND AAA/Stable
Non-convertible debenture	INE831R07342	29 November 2022	7.95%	28 November 2025	INR2.5	IND AAA/Stable
Non-convertible debenture	INE831R07359	26 April 2023	8.10%	26 April 2028	INR3.1	IND AAA/Stable
Non-convertible debenture	INE831R07367	13 July 2023	8.02%	13 July 28	INR2.65	IND AAA/Stable
Non-convertible debenture	INE831R07391	13 July 2023	8.03%	15 March 2027	INR2.85	IND AAA/Stable
Non-convertible debenture	INE831R07409	1 November 2023	8.13%	1 November 2028	INR2.70	IND AAA/Stable
Non-convertible debenture	INE831R07417	31 January 2024	8.00%	31 January 2034	INR4.25	IND AAA/Stable
Non-convertible debenture	INE831R07425	1 March 2024	8.20%	26 February 2027	INR2.25	IND AAA/Stable
Non-convertible debenture	INE831R07441	20 March 2024	8.20%	19 May 2027	INR4.25	IND AAA/Stable
		Utilised			**INR39.15**	
		Unutilised			INR39.4	
		Total			**INR78.55**	

Source: ABHFL, NSDL

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Rated Amount (billion)	Rating/Outlook
Subordinated debt	INE831R08019	4 July 2016	9.1	3 July 2026	INR0.15	IND AAA/Stable
Subordinated debt	INE831R08027	7 July 2016	9.1	7 July 2026	INR0.1	IND AAA/Stable
Subordinated debt	INE831R08035	13 July 2016	9.1	13 July 2026	INR0.15	IND AAA/Stable
Subordinated debt	INE831R08043	26 July 2016	8.99	24 July 2026	INR0.25	IND AAA/Stable
Subordinated debt	INE831R08050	17 May 2017	8.5	14 May 2027	INR0.6	IND AAA/Stable
Subordinated debt	INE831R08068	1 June 2017	8.5	1 June 2027	INR0.75	IND AAA/Stable

Subordinated debt	INE831R08076	10 June 2019	8.94	8 June 2029	INR0.5	IND AAA/Stable
Subordinated debt	INE831R08084	15 January 2021	7.43	15 January 2031	INR0.75	IND AAA/Stable
Utilised amount					INR3.25	
Unutilised amount					INR6.75	
Total rated amount					**INR10**	
Source: ABHFL, NSDL						

APPLICABLE CRITERIA

Rating FI Subsidiaries and Holding Companies

Rating of Financial Institutions Legacy Hybrids and Sub-Debt

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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