December 29, 2020

Aptus Value Housing Finance India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	401.00	401.00	[ICRA]A+(Stable); reaffirmed
Non-convertible Debenture Programme	200.00	-	[ICRA]A+(Stable); reaffirmed and withdrawn
Bank Facilities	1,610.00	1,610.00	[ICRA]A+(Stable); reaffirmed
Total	**2,211.00**	**2,011.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating is based on the consolidated profile of Aptus Value Housing Finance Limited (Aptus), and its fully owned subsidiary Aptus Finance India Private Limited (Aptus Finance).

The rating considers Aptus' good asset quality profile, healthy profitability (RoMA[1] of 6.3% for H1FY2021), and comfortable capitalisation profile (managed gearing of 1.2 times). ICRA takes note of the improvement in the collection efficiencies post May 2020, which supported the overall asset quality profile. The 90+dpd remained under control at 0.8% in November 2020 vis-à-vis 0.6% in June 2020 despite the increase in short-term delinquencies post May 2020 as the company extended a moratorium only to a few borrowers for June-August 2020. Sustained asset quality performance would be crucial considering the modest credit profile of the target borrower segments.

The rating also takes cognizance of Aptus' limited portfolio seasoning, high share of non-housing loans (NHL; 40% of the standalone portfolio as of September 2020) and, its geographically concentrated operations with Tamil Nadu (TN) and Puducherry together constituting 54% of the total portfolio as of September 2020; notwithstanding the improvement from 72% in March 2017. ICRA takes comfort from the experienced senior management team, however it notes the keyman risk associated with the promoter (Mr. Anandan; promoter group held 26% shareholding as of September 2020), as many key stakeholders draw comfort from his active involvement in the management of the company. ICRA expects that Aptus would further diversify its funding sources to continue secure funding at favorable rates in view of the envisaged portfolio growth.

ICRA has also reaffirmed and withdrawn the rating for the Rs. 200.00 crore NCD programme. The rating was withdrawn as the said instrument was fully redeemed by the company and there is no amount outstanding against the instrument. The rating was withdrawn in accordance with ICRA's policy on the withdrawal of credit rating.

[1] RoMA- Return on average managed assets

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile –Aptus' capitalisation profile remains comfortable with a managed gearing of 1.2 times as of September 2020 (1.2 times in March 2020). The capitalisation profile is supported by regular capital infusions, the last being about Rs. 800 crore in FY2020. Its net worth stood at ~Rs. 1,832 crore as of September 2020. The managed gearing is expected to be maintained at about 4.0 times over the medium term, considering the underlying risk profile of the current target segment and the envisaged portfolio growth of about 35% over the next two years. Aptus would not require external capital over the next two years for achieving the envisaged portfolio growth.

Healthy profitability indicators – Aptus, on a consolidated basis, reported RoMA of 6.3% (provisional; annualised) in H1 FY2021 and 6.3%[2] in FY2020 (5.9% in FY2019). The profitability is supported by low credit costs and improving operating efficiencies, while the interest margin moderated because of high on-balance sheet liquidity. The credit costs have remained in the range of 0.1-0.3% over the past 3 years, while the operating cost ratio improved to 2.5-3.0% from 4.6% in FY2017. The net interest margin moderated to 10% in H1FY2021 from about 12-13% in FY2017-FY2018. Going forward, the ability to keep the credit costs under control, in view of impact of the pandemic on borrower cash flows and maintain an optimal cost structure as the business expands would be crucial. ICRA expects the RoMA to at stabilise at about 5%, over the medium term.

Good asset quality; however impact of the pandemic would remain a monitorable – As of September 2020, Aptus' 90+dpd stood at 0.7% unchanged from March 2020. While the 90+dpd has remained largely stable, the 0-30 dpd bucket increased since June 2020. ICRA notes that the company had extended a moratorium to only few borrowers during the 2nd phase (June 2020 to August 2020), which led to an the increase in the softer bucket overdues. ICRA notes that the sustained asset quality performance would be crucial and a monitorable, going forward, in view of the impact of the pandemic on the borrower-level cash flows. While the target segment is largely the low income and self-employed category, a conservative loan-to-value (LTV; about 87% of the portfolio had LTV <=50 as on September 30, 2020) ratio underpinned by prudent underwriting policies and other monitoring & control systems mitigate the inherent risks to some extent. Aptus has an in-house team for sourcing loans, scrutinising legal documents and for the technical valuation of properties. It uses data from credit bureaus to screen the credit history of potential customers and analyses the past savings of its borrowers, apart from assessing their income, during the credit appraisal process to establish loan eligibility.

Credit challenges

High proportion of NHL book; exposure to borrowers with modest credit profiles – On a standalone basis, Aptus' portfolio stood at Rs. 3,043.3 crore in September 2020, with HLs accounting for 60.3%. The share of NHLs remained high at ~40% of the standalone book. However, about 18% of the NHLs in the standalone book was towards house construction, renovation or purchase, which do not meet the National Housing Bank (NHB) guidelines for classification as HLs. This, to an extent, offsets the risk emerging from the high share of NHLs. The consolidated managed portfolio stood at Rs. 3,537.2 crore as of September 30, 2020 with the housing loan (HL)

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[2] *Adjusted for reversed deferred tax liability of Rs. 18.0 crore after considering impact of change in tax rate*

portfolio accounting for 52% of the total portfolio and the remaining comprising NHLs (i.e. loan against property and small and medium enterprise loans).

Aptus also has a relatively high exposure to the self-employed category (73% of the overall portfolio, post revision in the classification norm, followed by the company) particularly the low-and middle-income segment. The target customers have limited access to credit from formal channels given the lack of proper income documents and are more susceptible to income shocks. The risk is, however, partly offset by the company's in-house origination and collection team, prudent appraisal and lending norms, and adequate portfolio tracking systems.

High growth resulting in limited portfolio seasoning – Aptus has a moderate track record (in relation to the loan tenor of up to 10-15 years), having commenced operations in FY2010. Its assets under management (AUM) increased at a 5-yr CAGR of 54% as on March 31, 2020. Further, the AUM is expected to grow at around 25% in FY2021 and around 35% per annum in the subsequent 2-3 years. Considering the envisaged growth, portfolio seasoning is likely to be low and would be a monitorable.

Geographically concentrated exposure profile, notwithstanding steady improvement: Aptus is a regional player with its operations limited to the four southern states of TN, Karnataka, Andhra Pradesh and Telangana, and the Union Territory (UT) of Puducherry with 178 branches as of September 2020. Of these, TN and Puducherry accounted for 54% of the total portfolio followed by Andhra Pradesh (25%), Telangana and Karnataka (10% each). ICRA notes that TN's share has declined from 72% as of March 2017 because of network expansion in the other states. Aptus has not planned any expansion outside the current geographies in the current fiscal but it plans to commence operations in 1-2 new contiguous states in FY2022. While the single state concentration is likely to improve over the medium term, the company would predominantly remain a regional player with a focus on the existing states for the medium-term growth of its operations.

Seasoned senior management team however keyman risk is a concern - The promoter (Mr. Anandan) and the senior management team have vast experience in the retail lending business. The board has nine directors including the Chairman and Managing Director, two representatives from private equity investors, three independent directors and three non-executive directors. ICRA takes comfort from the experienced senior management team however it notes the keyman risk associated with the promoter, as many key stakeholders draw comfort from his active involvement in the management of the company and his involvement would remain crucial as the company envisages a high paced growth over the next three years.

Liquidity position: Strong

The company had cash and liquid investments of about Rs. 489 crore as of October 2020 and debt obligations of about Rs. 189.8 crore during November 2020 to March 2021. Aptus' funding profile consisted of funding from banks (54%), followed by debentures (31%), NHB (12%) and portfolio sell-down (3%) as of September 2020. ICRA notes that the company has largely secured longer-tenor funding in the past, with about 61% of the total borrowings outstanding as on September 30, 2020 having a contractual maturity of 7 years and above. Considering its robust growth plans, ICRA expects Aptus to focus on long-tenor borrowings to keep the asset-liability mismatches under control. Also, ICRA expects that Aptus would further diversify its funding sources to continue secure funding at favorable rates in view of the envisaged portfolio growth.

Rating sensitivities

Positive triggers – ICRA could revise the outlook to Positive or upgrade the rating if the company is able to sustain a healthy earnings performance with RoMA of more than 4.0% and maintain a good asset quality profile. Achieving a more diversified funding profile and maintaining a well-matched asset-liability profile, as the portfolio expands, would also positively impact the ratings.

Negative triggers – Pressure on the ratings could arise in case of an increase in the managed gearing beyond 4.5 times, or deterioration in asset quality indicators (GNPA above 2.5%) on a sustained basis. Any sizeable weakening earnings or liquidity profile would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Rating Methodology for Non-Banking Finance Companies] [Policy on Withdrawal of Credit Ratings]
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of Aptus and its wholly-owned subsidiary, Aptus Finance India Private Limited

About the company

Chennai-based Aptus is a housing finance company (HFC), promoted by Mr. M Anandan and incorporated in December 2009. The company's target borrowers are from the low to middle-income segments, with an average ticket size of about Rs. 8-9 lakh. Its target geographies are the southern states, with a focus on rural and semi-urban areas. Aptus is largely focused on self-employed customers with limited or no documentary evidence of their income, and with limited access to funding from banks and larger HFCs.

Aptus' wholly-owned subsidiary, Aptus Finance India Private Limited extends mortgage loans to small and medium enterprises. On a standalone basis, Aptus Finance's AUM was about Rs. 494 crore as on September 30, 2020.

In FY2020, Aptus (consolidated) reported a net profit of Rs. 211.0 crore on a total managed asset base of Rs. 3,758.1 crore compared with a net profit of Rs. 111.7 crore on a total managed asset base of Rs. 2,333.9 crore in FY2019. In H1 FY2021, the net profit stood at Rs. 122.5 crore (provisional) on a total managed asset base of Rs. 4,051.5 crore.

Key financial indicators (consolidated)

	FY2019	FY2020	H1 FY2021^
Total income	337.3	523.1	307.0
Profit after tax	111.7	193.0#	122.5
Net worth	698.6	1,709.0	1,831.5
AUM	2,247.3	3,183.4	3,539.0
Total managed assets	2,333.9	3.758.1	4,051.5
Return on managed assets	5.9%	6.3%#	6.3%*
Return on net worth	17.4%	17.5%	13.8*
Managed gearing (times)	2.3	1.2	1.2

*Amounts in Rs. crore; All ratios as per ICRA calculations; *Annualised; ^Unaudited; # Adjusted for reversed deferred tax liability of Rs. 18.0 crore after considering impact of change in tax rate*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding		FY2020	FY2019			FY2018	
					29-Dec-20	18-Nov-19	18-Dec-18	21-Jun-18	11-Jun-18	04-Dec-17	13-Jul-17
1	Non-convertible Debentures	Long Term	401.00	401.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
2	Non-convertible Debentures	Long Term	200.00	Nil	[ICRA]A+(Stable); reaffirmed and withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
3	Bank facilities	Long Term	1,610.00	1,610.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)			[ICRA]A (Stable)	[ICRA]A (Stable)

Amount in Rs. crore

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	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE852O07048	NCD	26-Dec-17	10.00%	26-Dec-24	80.00	[ICRA]A+(Stable); reaffirmed & withdrawn
INE852O07055	NCD	25-Jan-18	10.00%	24-Jan-25	80.00	
INE852O07063	NCD	26-Feb-18	10.00%	26-Feb-25	40.00	
INE852O07071	NCD	20-Jun-18	10.00%	20-Jun-25	50.00	[ICRA]A+(Stable)
INE852O07089	NCD	20-Jul-18	10.00%	20-Jul-25	125.00	[ICRA]A+(Stable)
INE852O07097	NCD	20-Aug-18	10.00%	20-Aug-25	125.00	[ICRA]A+(Stable)
INE852O07105	NCD	08-Jan-19	NA	03-Nov-25	101.00	[ICRA]A+(Stable)
-	Term loan 1	Mar-19	NA	Jul-24	200.00	[ICRA]A+(Stable)
-	Term loan 2	Jun 19	NA	Jun-24	71.67	[ICRA]A+(Stable)
-	Term loan 3	Mar 19	NA	Sep-24	24.00	[ICRA]A+(Stable)
-	Term loan 4	Aug 17	NA	Aug-24	22.10	[ICRA]A+(Stable)
-	Term loan 5	Mar-19	NA	Mar-25	43.33	[ICRA]A+(Stable)
-	Term loan 6	Aug-17	NA	Jun-25	74.79	[ICRA]A+(Stable)
-	Term loan 7	Jun-17	NA	Apr-25	134.44	[ICRA]A+(Stable)
-	Term loan 8	Dec-18	NA	Dec-25	1.63	[ICRA]A+(Stable)
-	Term loan 9	Mar-19	NA	Mar-26	24.57	[ICRA]A+(Stable)
-	Term loan 10	Mar-20	NA	Mar-25	26.00	[ICRA]A+(Stable)
-	Term loan 11	Dec-18	NA	Mar-24	37.50	[ICRA]A+(Stable)
-	Term loan 12	Dec-19	NA	Jun-27	45.00	[ICRA]A+(Stable)
-	Term loan 13	Dec-18	NA	Dec-24	25.50	[ICRA]A+(Stable)
-	Term loan - proposed	NA	NA	NA	879.47	[ICRA]A+(Stable)

Source: Company; Amounts in Rs. crore

Annexure-2: List of entities considered for consolidated analysis

Company Name	Relationship with Rated Entity	Consolidation Approach
Aptus Value Housing Finance India Limited	-	Full consolidation
Aptus Finance India Private Limited	100% Subsidiary	

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