December 04, 2017

Aptus Value Housing Finance India Limited

Summary of rated instruments

Instruments*	Rated Amount (Rs. crore) [1]	Rating Action
Non-Convertible Debenture	200.00	[ICRA]A (stable); assigned
Long term bank facilities	500.00	[ICRA]A (stable); outstanding
Total	**700.00**	

*Instrument details are provided in Annexure-1

Rating Action

ICRA has assigned the rating of [ICRA]A (pronounced ICRA A)[2] for the Rs.200.00 crore NCD programme of Aptus Value Housing Finance India Limited (Aptus). ICRA also has an [ICRA]A (pronounced ICRA A) rating outstanding on the Rs. 500.00 crore long-term bank facilities of the company. The outlook on the rating is Stable.

Rationale

The assigned rating considers the experience of Aptus's senior management team in retail lending business, its comfortable capitalisation profile, good asset quality and healthy profitability. ICRA also takes cognisance of the large untapped affordable housing finance market and the healthy growth prospects for the segment going forward. During H1FY2018, the company's disbursements and portfolio grew at a robust 83% and 65% respectively, on an annualized basis, as compared with the growth of 65% and 72% during FY2017. The company's profitability (return on average managed assets) stood at 5.7% (provisional) in H1FY2018 as compared with 5.2% in FY2017 supported by a moderation in cost of funds and low leverage. Its asset quality also remained stable with gross NPAs at 0.78% as on September 30, 2017 (0.47% as on March 31, 2017), supported by prudent underwriting norms and good collection efficiencies, albeit on a relatively less seasoned book.

The rating is, however, constrained by Aptus's moderate track record and scale, its geographically concentrated operations and the limited diversity in its earnings profile. ICRA takes note of the company's exposure to customers with modest credit profiles, increase in the share of the non-housing loan portfolio in the recent past and the vulnerability of the company's target segments to income shocks in case of unfavourable economic cycles. Going forward, Aptus's ability to maintain asset quality as it expands the portfolio and tie-up long term funding at competitive rates would be key rating sensitivities.

Key rating drivers

Credit strengths

- **Experienced management team; good appraisal and monitoring systems –** Aptus has an experienced senior management team; the company's promoter (Mr. M. Anandan) and the senior management have vast experience in retail lending business and are directly engaged in operations. The company's Board has eight directors including the managing director, three representatives from private equity investors and four independent directors. The company has an in-house loan origination and collection team, and has set in place adequate internal control and portfolio tracking systems. The company uses data from Credit Information Bureau India limited (CIBIL) to screen the credit history of potential customers and undertakes an analysis of the past savings of its borrowers, apart from assessing income during credit appraisal to establish loan eligibility.

[1]Rs. 1 crore = Rs. 10 million = Rs. 100 lakh
[2] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

- **Comfortable capitalisation levels to support medium term growth plans –** Aptus' capitalisation profile remains comfortable with a net worth of Rs. 549.7 crore as on September 30, 2017. The company's gearing improved from 1.3 times as on March 31, 2016 to 0.6 time as on March 31, 2017 because of the equity infusion of Rs. 270.0 crore during FY2017; the gearing stood at 1.0 time as on September 30, 2017. The current capitalisation is likely to support the company's growth target of 60%-65% CAGR over the medium term, without any significant external capital requirement, assuming a gearing cap of 4-5 times and internal generation of about 12-15%. The company may however need to raise fresh capital in FY2020 if it grows at the targeted pace.

- **Adequate net profitability supported by low gearing and good operating efficiency; moderate return on networth currently –** Aptus reported good profitability (return on average managed assets) at 5.2% in FY2017 in comparison with 4.0% in FY2016 supported by good operating efficiencies, equity infusion (Rs.270 crore in FY2017) and low credit costs; the profitability stood at 5.7% in H1FY2018. The return on equity however was moderate at 11.2% for H1FY2018 as compared with 10.1% for FY2017 because of the low gearing. The company is expected to focus on increasing penetration through its existing 94 branches while adding new branches at the rate of about 30-35 per annum over the next three years. The company's ability to improve business volumes and operational efficiencies by levering its branch network while containing its credit costs would be crucial from a profitability perspective, going forward.

- **Good asset quality, characterised by healthy collections; portfolio however yet to be seasoned –** Aptus's asset quality remained range-bound with gross NPAs of 0.78% as on September 30, 2017. The company's collection efficiency remained comfortable at around 99% during the last one year notwithstanding the impact of demonetisation on borrower cash flows. The company's portfolio is however less seasoned given its moderate track record of operations. Further, the target customers are largely self-employed; however, the conservative loan-to-value (LTV; 88% of the portfolio had LTV< 50% as on September 30, 2017) norms underpinned by prudent underwriting policies mitigate the inherent risks associated with the self-employed segment to a certain extent. Going forward, ICRA would monitor Aptus's ability to contain delinquencies and recover from delinquent accounts as its portfolio grows, its products complete a few loan cycles, and it ventures into new geographies.

Credit Weaknesses

- **Increasing proportion of non-housing loan (NHL) book; however, a material share of NHL portfolio is for housing purposes –** Aptus's managed portfolio stood at Rs. 1,101 crore as on September 30, 2017, of which the housing loan (HL) portfolio accounted for 53%. Loans against property and small and medium enterprise loans, largely against self-occupied residential properties, accounted for the rest of the portfolio. The share of NHL in the company's loan portfolio increased from 37% as on March 31, 2016 to 43% as on March 31, 2017 and further to 47% as on September 30, 2017. However, about 32% of NHL was towards house construction, expansion or purchase, which do not meet the National Housing Bank (NHB) guidelines for classification as housing loans. This to an extent offsets the risk on account of the high share of NHL book in the overall portfolio.

- **Exposure to borrowers with modest credit profiles –** Aptus has a relatively high exposure to low and middle income self-employed borrowers. The company's self-employed borrowers accounted for 93% of portfolio as on September 30, 2017. The target customers have limited access to credit from formal channels given the lack of proper income documents. These borrowers are also relatively more susceptible to income shocks, particularly in a weak economic scenario. The risk is however partly off-set by the company's in-house origination and collection team, prudent appraisal and lending norms, and adequate portfolio tracking systems.

- **Moderate track record; portfolio likely to remain concentrated in South India over the medium term -** Aptus has a moderate track record in the housing finance segment having commenced operations in December 2009. The company is a regional player with operations limited to the four southern states of Tamil Nadu, Karnataka, Andhra Pradesh and Telangana and the union territory of Pondicherry with a total of 94 branches as on September 30, 2017. Of these, Tamil Nadu accounted for 65% of loan portfolio as on September 30, 2017; the share has reduced from 72% as on March 31, 2017 on account of the expansion of network in the other states. Going forward, the company intends to set up 30-35 new branches in South India annually over the next three years to pursue its growth plans. While the geographical diversity is likely to improve over the medium term, the company would predominantly remain a regional player.

- **Diversified funding profile is critical for supporting the envisaged growth -** Aptus's funding profile is characterised by funding from banks, NHB and through long term debentures (from International Finance Corporation), which stood at 59%, 23% and 19% respectively of its total borrowings as on September 30, 2017. The company's liquidity profile is adequate supported by a low leverage. Considering the company's robust expansion targets, it would be crucial to further diversify the funding sources and secure long term funding to maintain a comfortable asset liability profile.

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

Links to applicable criteria
ICRA rating methodology for housing finance companies

About the company:
Aptus is a housing finance company, incorporated in December 2009. Aptus' corporate office is located in Chennai. The company's target borrowers are from the low to middle-income segments, with an average ticket size of about Rs. 7-8 lakh. The company's target geographies are the southern states, with a focus on rural and semi-urban areas. Aptus is largely focussed on self-employed customers without documentary evidence of their income, and limited access to funding from banks and larger HFCs. The company has adequate systems and processes to assess the income of borrowers. The company is promoted by Mr. M Anandan. The company's total net worth stood at Rs. 550 crore as on September 30, 2017.

In H1FY2018, the company reported a net profit of Rs. 29.2 crore on a managed asset base of Rs. 1,134.6 crore compared with a net profit of Rs.12.9 crore on a managed asset base of Rs. 905.6 crore in H1FY2017. In FY2017, the company reported a net profit of Rs. 36.9 crore on a managed asset base of Rs. 878.6 crore compared with a net profit of Rs.17.5 crore on a managed asset base of Rs. 544.9 crore in FY2016.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Key financial indicators

	FY2016	FY2017	H1FY2017	H1FY2018
Total Income (Rs crore)	78.0	125.9	55.0	90.3
Profit after Tax (Rs crore)	17.5	36.9	12.9	29.2
Net worth (Rs crore)	212.0	520.7	494.0	549.7
Total Managed Portfolio (Rs crore)	520.1	852.9	667.1	1100.9
Total Managed Assets (Rs crore)	544.9	878.6	905.6	1,134.6
Return on Managed Assets	4.0%	5.2%	na	5.7%
Return on Net Worth %	8.6%	10.1%	na	11.2%
Gearing (Reported)	1.3	0.6	0.7	1.0
Gross NPA %	0.47%	0.47%	0.69%	0.78%
Net NPA %	0.38%	0.36%	0.56%	0.65%
Capital Adequacy Ratio %	74.8%	98.1%	107.2%	75.3%

Source: Aptus

Rating history for last three years:
Table:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
				FY2018		FY2017	FY2016	FY2015
S. No.	**Instrument**	**Type**	**Rated amount (Rs. crore)**	**Dec 2017**	**Jun 2017**	**Feb 2017**	**Mar 2016**	**Jan 2015**
1	Term Loans	Long term	500.00	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A- (stable)	[ICRA]BBB+ (positive)	[ICRA]BBB+ (stable)
2	NCD	Long term	200.00	[ICRA]A (stable)	-	-	-	-

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

Instrument	**Date of Issuance / Sanction**	**Coupon Rate**	**Maturity Date**	**Rated Amount (Rs. crore)**	**Current Rating and Outlook**
Proposed NCD	-	-	-	200.0	[ICRA]A(Stable)
Long Term - Proposed Limits	-	-	-	500.0	[ICRA]A(Stable)

Source: Aptus

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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