

Aptus Value Housing Finance India Limited

June 11, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	-	300.00	[ICRA]A (stable); assigned
Non-convertible Debentures	200.00	200.00	[ICRA]A (stable); reaffirmed
Long-term bank facilities	500.00	500.00	[ICRA]A (stable); reaffirmed
Total	700.00	1,000.00	

Rating action

ICRA has assigned the rating of [ICRA]A (pronounced ICRA A)¹ to the Rs. 300.00-crore² non-convertible debenture (NCD) programme of Aptus Value Housing Finance India Limited (Aptus). ICRA has also reaffirmed the [ICRA]A rating for the Rs. 200.00-crore NCD programme and the Rs. 500.00-crore long-term bank facilities of Aptus. The outlook on the long-term rating is Stable.

Rationale

The assigned rating considers the experience of Aptus' senior management team in the 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 segment's healthy growth prospects, going forward. During FY2018, the company's disbursements and portfolio grew at a robust 78% and 67%, respectively (68% and 63%, respectively, during FY2017), aided by branch network expansion in new geographies. The company's profitability (return on average managed assets) increased to 6.0% in FY2018 from 5.2% in FY2017, supported by low leverage and improvement in operating efficiencies. Its asset quality also remained largely stable with gross non-performing assets (NPAs) at 0.50% as on March 31, 2018 (0.45% as on March 31, 2017), supported by prudent underwriting norms and good collection efficiencies, albeit on a relatively-less seasoned book.

The rating also takes note of the company's exposure to customers with modest credit profiles, the relatively high share of the non-housing loan (NHL) portfolio, and the vulnerability of the company's target segments to income shocks in case of unfavourable economic cycles. The rating also factors in Aptus' moderate track record and scale, its geographically-concentrated operations and the limited diversity in its earnings profile. While Tamil Nadu (TN) constitutes the bulk of the portfolio (65% as on March 31, 2018), sizeable branch expansion in adjacent states over the past two years led to an increase in the share of the non-TN portfolio to 35%, as on March 31, 2018, from 21% as on March 31, 2016. Going forward, Aptus' ability to maintain the asset quality as it expands the portfolio and tie-up long-term funding at competitive rates would be key rating sensitivities.

Outlook: Stable

The Stable outlook factors in the good asset quality, adequate risk management systems and the experienced senior management team. The rating may be revised to Positive if the company grows and diversifies its portfolio while

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

² 100 lakh = 1 crore = 10 million

maintaining a healthy earnings and asset quality profile. The outlook may be revised to Negative if the asset quality deteriorates sharply or if there is significant weakening in the earnings or capital profile.

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 the retail lending business and are directly engaged in its operations. The company's board has nine directors including the Managing Director, four representatives from private equity investors, and four independent directors. The company has an in-house team for sourcing loans, scrutinising legal documents and technical valuation of properties. The company has also put in place adequate internal control and portfolio tracking systems. It uses data from credit bureaus to screen the credit history of potential customers and undertakes an analysis of the past savings of its borrowers, apart from assessing their income, during credit appraisal to establish loan eligibility.

Comfortable capitalisation levels to support medium-term growth plans – Aptus' capitalisation profile remains comfortable with net worth and gearing of Rs. 589.5 crore and 1.4 times, respectively, as on March 31, 2018. The capital structure is supported by equity infusion of Rs. 270.0 crore during FY2017. The current capitalisation is likely to support the company's target of 60-65% compounded annual growth rate over the next three years, without any significant external capital requirement, assuming a gearing of 4-5 times and internal generation of about 12-14%.

Adequate net profitability; moderate return on equity – Aptus reported good profitability (return on average managed assets) at 6.0% in FY2018 in comparison to 5.2% in FY2017 supported by stable yields, good operating efficiencies and low credit costs. The return on equity was moderate at 12.6% for FY2018 compared to 10.2% for FY2017 because of the low gearing. The company intends to focus on increasing penetration through its existing 115 branches while adding new branches at the rate of about 30-40 per annum over the next three years. The company's ability to improve operational efficiencies by leveraging its branch network and keeping its credit costs under control would be crucial from a profitability perspective, going forward.

Good asset quality, characterised by healthy collections though portfolio yet to season – Aptus' asset quality remained range bound with gross NPAs of 0.50% as on March 31, 2018. The company's portfolio is, however, less seasoned given its moderate track record of operations. Further, the target customers are largely self-employed. Nevertheless, the conservative loan-to-value (LTV; 77% of the portfolio had LTV < 45% as on March 31, 2018) 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' 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 challenges

High proportion of NHL book though a portion of the NHL portfolio is for housing purposes – Aptus' managed portfolio stood at Rs. 1,411 crore as on March 31, 2018, with the housing loan (HL) portfolio accounting for 57% of the portfolio. 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 NHLs in the company's loan portfolio remained high at 43% as on March 31, 2018 although about 23% of the NHL portfolio (or ~10% of the overall book) was towards house construction, expansion or purchase, which do not meet the National Housing Bank's (NHB) guidelines for classification as housing loans. This, to an extent, offsets the risk on account of the high share of the 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 98% of the portfolio as on March 31, 2018.

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 offset 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 FY2010. 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 115 branches as on March 31, 2018. Of these, Tamil Nadu accounted for 65% of the loan portfolio, as on March 31, 2018, though its share has reduced from 72%, as on March 31, 2017, on account of network expansion into other states. Going forward, the company intends to set up 30-40 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 envisaged growth - Aptus' funding profile is characterised by funding from banks, NHB and long-term debentures (from International Finance Corporation and Franklin Templeton Asset Management India Private Limited), which stood at 44%, 20% and 36%, respectively, of its total borrowings as on March 31, 2018. The company's liquidity profile is adequately 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: The rating considers the consolidated performance of Aptus along with its wholly-owned subsidiary, Aptus Finance India Private Limited.

Links to applicable criteria:

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

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. 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 with limited access to funding from banks and larger HFCs. The company has adequate systems and processes to assess the income of borrowers.

The company has a wholly-owned subsidiary, Aptus Finance India Private Limited (Aptus Finance), which extends mortgage loans to small and medium enterprises. On a standalone basis, Aptus Finance's book size was about Rs. 30 crore as on March 31, 2018.

In FY2018, Aptus (consolidated) reported a net profit of Rs. 70.2 crore on a total managed asset base of Rs. 1,477.7 crore as against a net profit of Rs. 37.2 crore on a total managed asset base of Rs. 879.0 crore during FY2017.

Key Financial Indicators

Aptus - consolidated	FY 2017	FY 2018
Total Income	126.4	212.9
Profit After Tax	37.2	70.2
Net Worth	521.1	589.5
Managed Portfolio	846.3	1,411.0
Total Managed Assets	879.0	1,477.7
Return on Managed Assets	5.2%	6.0%
Return on Net worth	10.2%	12.6%
Gearing	0.6	1.4
Gross NPA%	0.45%	0.50%
Net NPA%	0.35%	0.40%
CAR%	98.1%	63.9%

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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	FY2018 July 2017	FY2017 March 2017	FY2016 Mar 2016
1 NCD	Long-term	300.00	-	[ICRA]A (stable)	-	-	-
2 NCD	Long-term	200.00	200.00	[ICRA]A (stable)	-	-	-
3 Bank loans	Long-term	500.00	500.00	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A- (stable)	[ICRA]BBB+ (positive)

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	Rated Amount Rs. crore	Current Rating and Outlook
-	Proposed NCD	-	-	-	300.00	[ICRA]A(Stable)
INE852007 048	NCD	26-Dec-17	10.0%	26-Dec-24	80.00	[ICRA]A(Stable)
INE852007 055	NCD	25-Jan-18	10.0%	24-Jan-25	80.00	[ICRA]A(Stable)
INE852007 063	NCD	26-Feb-18	10.0%	26-Feb-25	40.00	[ICRA]A(Stable)
-	Term loan 1	Jul-17	NA	Jul-24	36.91	[ICRA]A(Stable)
-	Term loan 2	Dec-17	NA	Dec-24	75.00	[ICRA]A(Stable)
-	Term loan 3	Jul-17	NA	Jul-24	46.43	[ICRA]A(Stable)
-	Term loan 4	Apr-18	NA	Apr-25	60.00	[ICRA]A(Stable)
-	Term loan 5	May-18	NA	May-25	50.00	[ICRA]A(Stable)
-	Proposed Term Loan	-	-	-	231.66	[ICRA]A(Stable)

Source: Aptus

ANALYST CONTACTS

Karthik Srinivasan

+91-124-4545847

karthiks@icraindia.com

A M Karthik

+91-44-45964308

a.karthik@icraindia.com

Govindaraj Prabhu M

+91-44-45964306

Govindaraj.m@icraindia.com

Meenakshi D

+91-44-4297 4324

meenakshi.d@icraindia.com

RELATIONSHIP CONTACT

Mr. Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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