Aptus Value Housing Finance India Limited

December 18, 2018

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	-	101.00	[ICRA]A (stable); assigned
Fund-based Term Loan	895.00	895.00	[ICRA]A (stable); outstanding
Fund-based Cash Credit	5.00	5.00	[ICRA]A (stable); outstanding
Short Term Debt	200.00	200.00	[ICRA]A1; outstanding
Non-convertible Debentures	500.00	500.00	[ICRA]A (stable); outstanding
Total	**1,600.00**	**1,701.00**	

Instrument details are provided in Annexure-1

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. The company's managed portfolio[1] grew by a sharp 59% YoY to Rs. 1,756 crore as of September 2018 (compounded annual growth rate (CAGR) of 57% during FY2016-FY2018). Aptus reported good profitability (return on average managed assets) of 5.7% in H1 FY2019 (Ind-AS) compared to 5.1% (3-year average during FY2016-FY2018; IGAAP), supported by low leverage and improvement in operating efficiency. The asset quality also remained stable with gross non-performing assets (NPAs) at 0.80% as on September 30, 2018 (0.50% as on March 31, 2018), 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 (62% as on September 30, 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 38%, as on September 30, 2018, from 21% as on March 31, 2016. Going forward, Aptus' ability to maintain the asset quality as it expands the portfolio and ties up long-term funding at competitive rates would be a key rating sensitivity.

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 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 a significant weakening in its liquidity, earnings or capital profile.

[1] *Includes on-book and off-book (securitised portfolio)*

Key rating drivers

Credit strengths

Experienced management team; good appraisal and monitoring systems – Aptus has an experienced senior management team. The promoter (Mr. M. Anandan) and the senior management have vast experience in the retail lending business and are directly engaged in the company's operations. The board has nine directors including the Chairman and Managing Director, three representatives from private equity investors, three independent directors and two non-executive directors. The company has an in-house team for sourcing loans, scrutinising legal documents and for the technical valuation of properties. The company also has 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. 632.9 crore and 1.9 times, respectively, as on September 30, 2018. The current capitalisation is likely to support the company's target of CAGR of 60-65% during FY2019-FY2021, without any significant external capital requirement, assuming a gearing of 4-5 times and internal generation of about 12-14%.

Adequate net profitability; improving return on equity – Aptus reported good profitability with return on average managed assets of 5.7% in H1 FY2019 (Ind-AS) compared to the 3-year average of 5.1% (during FY2016-FY2018; IGAAP) supported by stable yields, good operating efficiencies and low credit costs. The return on equity improved to 15.8% in H1 FY2019 from 12.6% for FY2018 because of the low gearing. The company intends to focus on increasing penetration through its existing 133 branches while adding new branches at a rate of about 30-40 per annum over the next three years. Aptus' ability to maintain margins given the increasing funding cost, improve operational efficiencies and keep 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 0.8% as on September 30, 2018 (0.5% 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; three-fourth of the portfolio had LTV< 45% as on September 30, 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. 1,756 crore as on September 30, 2018, with the housing loan (HL) portfolio accounting for 57% of the total 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 September 30, 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 81% of the portfolio as on September 30, 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 133 branches as on September 30, 2018. Of these, Tamil Nadu accounted for 62% of the loan portfolio, as on September 30, 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 (International Finance Corporation and Franklin Templeton Asset Management India Private Limited), which stood at 36%, 13% and 51%, respectively, of its total borrowings as on September 30, 2018. The company's liquidity profile is adequately supported by a low leverage. Considering its robust expansion targets, it would be crucial to diversify the funding sources further and secure long-term funding to maintain a comfortable asset liability profile.

Liquidity position

Aptus' asset liability maturity (ALM) profile reflects no cumulative negative mismatches in the <1-year bucket. The company had cash and liquid investments of about Rs. 140 crore and sanctioned unavailed bank lines of about Rs. 130 crore as of September 2018 while it has repayment obligations of about Rs. 45 crore over six months (October 2018-March 2019). The company's inflow (principal) from loan collections is estimated at Rs. 42 crore for the above-mentioned period.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing Finance Companies
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 (Aptus Finance)

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. Its 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.

Aptus 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. 96 crore as on September 30, 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 against a net profit of Rs. 37.2 crore on a total managed asset base of Rs. 879.0 crore in FY2017.

Key financial indicators

Aptus - consolidated	IGAAP FY2017	IGAAP FY2018	Ind-AS H1 FY2019
Total Income	126.4	212.9	149.3
Profit after Tax	37.2	70.2	48.1
Net Worth	521.1	589.5	632.9
Managed Portfolio	846.3	1,411.0	1,756.3
Total Managed Assets	879.0	1,477.7	1,919.2
Return on Managed Assets	5.2%	6.0%	5.7%
Return on Net Worth	10.1%	12.6%	15.8%
Gearing (times)	0.6	1.4	1.9
Gross NPA%	0.45%	0.50%	0.80%
Net NPA%	0.35%	0.40%	0.60%
CAR%	98.1%	63.9%	53.7%

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			
							FY2018		FY2017	FY2016
	Instrument	Type	Amount Rated (Rs. crore	Amount Outstanding (Rs. crore)	Dec 2018	Jun 2018	Dec 2017	Jul 2017	Mar 2017	Mar 2016
1	Non-convertible Debentures	Long-term	101.00	101.00	[ICRA]A (stable)	-	-	-	-	-
1	Fund-based Term Loan	Long-term	895.00	895.00	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A- (stable)	[ICRA]BBB+ (positive)
2	Fund-based Cash Credit	Long-term	5.00	5.00	[ICRA]A (stable)	[ICRA]A (stable)	-	-	-	-
3	Short Term debt	Short-term	200.00	200.00	[ICRA]A1	[ICRA]A1	-	-	-	-
4	Non-convertible Debentures	Long-Term	500.00	500.00	[ICRA]A (stable)	[ICRA]A (stable)	[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

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
Unutilised	NCD	-	-	-	101.00	[ICRA]A(Stable)
Unutilised	STD	-	-	-	200.00	[ICRA]A(Stable)
INE852O07048	NCD	26-Dec-17	10.0%	26-Dec-24	80.00	[ICRA]A(Stable)
INE852O07055	NCD	25-Jan-18	10.0%	24-Jan-25	80.00	[ICRA]A(Stable)
INE852O07063	NCD	26-Feb-18	10.0%	26-Feb-25	40.00	[ICRA]A(Stable)
INE852O07071	NCD	20-Jun-18	10.0%	20-Jun-25	50.00	[ICRA]A(Stable)
INE852O07089	NCD	20-Jul-18	10.0%	20-Jul-25	125.00	[ICRA]A(Stable)
INE852O07097	NCD	20-Aug-18	10.0%	20-Aug-25	125.00	[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)
-	Cash credit	NA	NA	NA	5.00	[ICRA]A(Stable)
-	Term loan - proposed	-	-	-	626.66	[ICRA]A(Stable)

Source: Aptus

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Aptus Finance India Private Limited	100.00%	Full Consolidation

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

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.

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) 2556 0194/ 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents