April 05, 2021

APAC Financial Services Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Bank Lines	50	50	[ICRA]BBB+ (Stable); Reaffirmed
Long-term Bank Lines – Unallocated	350	350	[ICRA]BBB+ (Stable); Reaffirmed
Total	**400**	**400**	

** Instrument details are provided in Annexure-1*

Rationale

The rating factors in APAC Financial Services Private Limited's (APAC) experienced management team and adequate capitalisation. The company has raised ~Rs. 400 crore of equity capital from its founder director, senior leadership team and other investors since commencing its operations. While the company has a limited track record, the rating positively factors in APAC's adequate underwriting and risk management processes and systems, and increased focus on granularity in lending book as well as emphasis on secured lending.

The rating is, however, constrained by APAC's modest scale and nascent stage of operations. While the portfolio ramp-up has been slower than expected owing to slowdown in disbursements in H1 FY2021 amid the Covid-19 pandemic, APAC also witnessed a moderation in asset quality in FY2020. As on December 31, 2020, the gross non-performing asset ratio (GNPA) and the net non-performing asset ratio (NNPA) stood at 1.60% and 0.82%, respectively compared to 2.24% and 1.26%, respectively as on March 31, 2020 and nil GNPA as on March 31, 2019. The presence of property as collateral and/or guarantee cover for a sizeable share of its MSME portfolio under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) of Small Industries Development Bank of India (SIDBI) provides cushion on portfolio asset quality. APAC's portfolio is largely funded by equity at present and the borrowing level is expected to gradually increase with the scaling up of operations. ICRA notes that the management's plan to maintain a prudent capitalisation level with the gearing not exceeding three times in the near term provides comfort. APAC's ability to build a well-diversified resource profile at competitive terms on a sustained basis would remain critical, given its limited lending relationships as on date. Going forward, the company's ability to scale up its operations with healthy profitability, build a well-diversified resource profile at competitive terms, and maintain a healthy asset quality on a sustained basis would remain critical from the credit perspective.

Key rating drivers and their description

Credit strengths

Adequate capitalisation to support growth over the near to medium term – APAC is well capitalised and is largely funded by equity with limited borrowings as on date. The company had a net worth of Rs. 398.72 crore and borrowings of Rs. 53.94 crore as on December 31, 2020. In ICRA's view, APAC's capitalisation profile is adequate for the current scale of operations and its near-to-medium-term growth plans. Going forward, the company would need to infuse additional capital to support the ramp-up in loan book and branch expansion plans. ICRA notes that the management's plan to maintain a prudent capitalisation level with the gearing not exceeding three times in the near term provides comfort. Going forward, the company plans to raise additional capital to support the portfolio ramp-up.

Experienced management team consisting of seasoned industry professionals; adequate governance and systems – APAC is promoted by Mr. Gunit Chadha (previously the CEO, Asia-Pacific and Member of the Global Group Executive Committee, Deutsche Bank), who had a 43.67% stake in the company as on December 31, 2020. Multiples Alternate Asset Management via Multiples Private Equity Fund II LLP and Plenty Private Equity Fund I Limited holds a 47.23% stake in APAC while the balance is held by the company's leadership team (4.70%) and other investors (4.40%). APAC has also brought on board senior industry members to head key businesses and functions. The leadership team has invested a significant amount of their own capital (a 4.70% stake held by the leadership team in the company), which aligns them to the long-term goals of the company. APAC currently has a five-member board of directors, which includes Mr. Gunit Chadha and Mr. Shankar Dey as Executive Directors, one non-founder member and two members from Multiples Private Equity. The board meetings are attended by Multiples Private Equity and there is a regular board engagement on an overall basis. Although the company's track record remains limited, the experience of the management team, the underwriting framework and adequate monitoring and management systems provide comfort.

Focus on granularity in the lending book – APAC commenced its lending operations in FY2019 and provides finance to micro, small and medium enterprise businesses (MSME) and affordable housing loans. The MSME loans start from as low as Rs. 50,000, while the affordable housing loans range between Rs. 3 lakh and Rs. 30 lakh. The management has constantly endeavoured to reduce the average ticket size and increase granularity in the loan book. APAC provides housing finance through its housing finance company subsidiary, APAC HFPL. The company increased its overall portfolio to ~Rs. 325 crore as on December 31, 2020 from ~Rs. 116 crore as on March 31, 2019 (~Rs. 255 crore as on March 31, 2020). As of December 2020, APAC had 2,547 customers, 36 branches and 347 employees compared to 1,169 customers, 22 branches and 263 employees as of December 2019. The average loan amount decreased to Rs. 12.80 lakh as of December 2020 from Rs. 21.64 lakh as of December 2019. Going forward, the ability to grow its portfolio while maintaining the asset quality would remain a key monitorable.

Credit challenges

Nascent stages of operations with limited track record and modest scale – The company commenced its lending operations in FY2019. During the initial period, the company was focused on setting up the systems and policies and the vintage of portfolio has been low. The ramp-up of operations has been slower than expected with disbursements affected in FY2021 in the wake of the pandemic. In Q1 FY2021, the disbursements stood at Rs. 6.8 crore, which picked up in the subsequent quarters (Rs. 59.5 crore in Q2FY2021 and Rs. 88.3 crore in Q3 FY2021). APAC reported pre-provisioning operative profit (PPOP) of Rs. 13.08 crore in 9M FY2021 compared to Rs. 12.24 crore in FY2020. The profit after tax (PAT) stood at Rs. 2.90 crore in 9M FY2021 (return on assets or RoA of 0.88%) compared to Rs. 6.69 crore in FY2020 (RoA of 1.74%) after losses in the prior period, supported by controlled operating expenses and hitherto moderate credit costs. Going forward, the company's ability to achieve a measured growth while maintaining adequate profitability would remain a key monitorable.

Ability to maintain asset quality while scaling up – APAC witnessed moderation in asset quality in FY2020 with a gross non-performing asset ratio (GNPA) and net non-performing asset ratio (NNPA) of 2.24% and 1.26%, respectively as on March 31, 2020 compared to nil GNPA as on March 31, 2019. As on December 31, 2020, the GNPA and NNPA ratio moderated to 1.60% and 0.82%, respectively with an increase in scale and higher provisions, however, presence of adequate collateral provides comfort. Additionally, loans amounting to 7.6% of the portfolio had been restructured under the Covid-19 related regulatory package. However, most of these loans (~99%) were regular at the time of restructuring. Going forward as the company grows, its underwriting process, collection strength and ability to maintain a healthy asset quality would be key monitorables.

Ability to build a diversified liabilities profile – The company's operations, thus far, have been largely funded by equity and there are limited borrowings as of December 2020. APAC is expected to raise long-term funds from multiple banks with an expected tenure of 3-5 years. ICRA, however, notes that the leverage would increase from the current levels with incremental debt-funded business. Nevertheless, the management's plan to maintain a prudent capitalisation level with gearing not exceeding three times provides comfort. APAC's ability to build a well-diversified resource profile at competitive terms on a sustained basis would remain critical, given its limited lending relationships as on date and considering its growth plans and the current market conditions.

Liquidity position: Adequate

The company had borrowings outstanding of Rs. 53.94 crore as on December 31, 2020. The on-balance sheet liquidity comprises unencumbered cash and bank balance of Rs. 27.00 crore, liquid investments of Rs. 77.87 crore and undrawn bank lines of Rs. 45.45 crore as on December 31, 2020. The available liquidity, without factoring in any inflows from the loan book, is adequate to cover all debt repayment obligations. The monthly collections from the portfolio provide additional comfort. Further, the company endeavours to raise longer term debt to maintain a well matched ALM profile and adequate near-term liquidity.

Rating sensitivities

Positive factors – ICRA could change the outlook to positive or upgrade the ratings if the company is able to profitably scale up its business operations on a sustained basis, maintain a healthy asset quality (90+DPD below 4% of loan book) on a sustained basis and build a well-diversified resource profile.

Negative factors – Pressure on APAC's rating could arise if the leverage increases to more than 4 times on a sustained basis or if there is a sustained weakening in the credit profile, thereby putting pressure on the profitability.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of APAC Financial Services Private Limited.

About the company

APAC Financial Services Private Limited (APAC FSPL) is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). The company predominantly provides secured small ticket loans to micro, small and medium enterprises (MSMEs). APAC FSPL has a wholly-owned subsidiary, APAC Housing Finance Private Limited (APAC HFPL), a housing finance company registered in May 2018 with the National Housing Bank. APAC FSPL and APAC HFPL are together referred to as APAC or the APAC Group (or the company).

Key financial indicators of APAC

Particulars	FY2019	FY2020	9M FY2021*
Total income (Rs. crore)	17.96	50.03	43.92
Pre-provisioning operating profit (Rs. crore)	(14.00)	12.24	13.08
Profit after tax (Rs. crore)	(14.36)	6.69	2.90
Net worth (Rs. crore)	355.45	393.81	398.72
Loan book (Rs. crore)	115.75	249.27	313.55
Total assets (Rs. crore)	363.09	407.86	473.41
Return on assets (%)	-7.45%	1.74%	0.88%
Return on net worth (%)	-7.60%	1.79%	0.97%
Gross gearing (times)	0.00	0.00	0.14
Gross NPA (%)	0.00%	2.24%	1.60%
Net NPA (%)	0.00%	1.26%	0.82%
Net NPA/Net worth (%)	0.00%	0.79%	0.67%
CRAR (%)	106.27%	104.26%	98.89%

***Source**: Company, ICRA research; All ratios as per ICRA calculations*

**Unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Current Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 5, 2021	-	Mar 26, 2020	-
1	Long-term Fund-based Bank Lines	Long-term	50	50	[ICRA]BBB+ (Stable); Reaffirmed	-	[ICRA]BBB+ (Stable)	-
2	Long-term Bank Lines – Unallocated	Long-term	350	NA	[ICRA]BBB+ (Stable); Reaffirmed	-	[ICRA]BBB+ (Stable)	-

** Outstanding as on December 31, 2020*

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long-term Fund-based Bank Lines	July 2020	NA	July 2024	50	[ICRA]BBB+ (Stable)
NA	Long-term Bank Lines – Unallocated	NA	NA	NA	350	[ICRA]BBB+ (Stable)

Source: Company

Annexure 2: List of entities considered for consolidated analysis

Company Name	APAC Ownership	Consolidation Approach
APAC Housing Finance Private Limited	100.00%	Full Consolidation

Source: *Company*

Note: *ICRA has taken a consolidated view of the parent (APAC) and its subsidiary while assigning the rating*

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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.

For more information, visit www.icra.in

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