

November 30, 2021

## APAC Financial Services Private Limited: Change of Limits

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term Fund-based Bank Lines (Term Loans)	-	400	[ICRA]BBB+ (Stable)
Long-term Fund-based Bank Lines (CC)	50	-	-
Long-term Bank Lines – Unallocated	350	-	-
<b>Total</b>	<b>400</b>	<b>400</b>	

\*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. The rating also 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 amid the Covid-19 pandemic, APAC also witnessed a moderation in asset quality. As of September 2021, the gross 90+ dpd and the net 90+dpd stood at 2.62% and 1.82%, respectively compared to 0.42% and 0.17% respectively as of March 2021 and 2.24% and 1.26%, respectively as of March 2020. 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. 406.86 crore and borrowings of Rs. 44.62 crore as on September 30, 2021. In ICRA's view, APAC's capitalisation profile is adequate for the current scale of operations and its near-to-medium-term growth 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 September 30, 2021. 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 operations in FY2018 and provides finance to micro, small and medium enterprise businesses (MSME) and affordable housing loans. The 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's portfolio stood at Rs. 390 crore as on September 30, 2021 compared to Rs. 355 crore as on March 31, 2021. As of September 2021, APAC had 4,925 customers served through a network of 61 branches with 559 employees compared to 2,017 customers, 31 branches and 284 employees as of September 2020. 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 operations in FY2018. 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. However, the same picked up marginally in Q2 FY2022 with the AUM increasing to Rs. 390 crore as of September 2021 from Rs. 355 crore as of March 2021 (Rs. 255 crore as of March 2020). APAC reported pre-provisioning operative profit (PPOP) of Rs. 7.42 crore in H1 FY2022 compared to Rs. 15.03 crore in FY2021. The profit after tax (PAT) stood at Rs. 4.11 crore in H1 FY2022 (return on assets or RoA of 1.74%) compared to Rs. 4.36 crore in FY2021 (RoA of 0.99%). 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 H1 FY2022 with a gross 90+ dpd and net 90+ dpd of 2.62% and 1.82%, respectively as on September 30, 2021 compared to 0.42% and 0.17% respectively as on March 31, 2021 on account of localised lockdowns/restrictions due to the 2<sup>nd</sup> wave of the pandemic resulting in increased slippages. However, the presence of adequate collateral provides comfort. Additionally, loans amounting to 8.51% of the portfolio had been restructured under the Covid-19 related regulatory package as of September 2021. However, most of these loans 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 September 2021. 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. 44.62 crore as on September 30, 2021. The on-balance sheet liquidity (unencumbered cash and bank balance and liquid investments) stood at Rs. 60.64 crore as on that date. Further, the company also has committed and undrawn bank lines of Rs. 42.27 crore. 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	<a href="#">ICRA’s Credit Rating Methodology for Non-Banking Finance Companies Consolidation and Rating Approach</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of APAC Financial Services Private Limited and its wholly owned subsidiary APAC Housing Finance 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 (audited)

APAC	FY2020	FY2021	H1 FY2022*
Total income (Rs. crore)	50.03	60.55	35.15
Pre-provisioning operating profit (Rs. crore)	12.24	15.03	7.42
Profit after tax (Rs. crore)	6.69	4.36	4.11
Net worth (Rs. crore)	393.81	400.62	406.86
Loan book (Rs. crore)	249.27	346.96	383.50
Total assets (Rs. crore)	407.86	477.06	465.75
Return on assets (%)	1.74%	0.99%	1.74%
Return on net worth (%)	1.79%	1.10%	2.03%
Gross gearing (times)	0.00	0.13	0.11

APAC	FY2020	FY2021	H1 FY2022*
Gross NPA (%)	2.24%	0.51%	2.79%
Net NPA (%)	1.26%	0.26%	1.98%
Solvency (Net stage 3/Net worth)	0.79%	0.23%	1.90%

Source: Company, ICRA Research; \* Provisional numbers. All ratios as per ICRA calculations

**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
				Nov 30, 2021	Apr 5, 2021	Mar 26, 2020		
1 Long-term Fund-based Bank Lines (Term Loans)	Long-term	400.00	44.62	[ICRA]BBB+ (Stable)	-			
2 Long-term Fund-based Bank Lines (CC)	Long-term	-	-	-	[ICRA]BBB+ (Stable)		[ICRA]BBB+ (Stable)	
3 Long-term Fund-based Bank Lines (Unallocated)	Long-term	-	-	-	[ICRA]BBB+ (Stable)		[ICRA]BBB+ (Stable)	

\* Outstanding as on September 30, 2021

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Bank Lines (Term Loans)	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

### Annexure-1: Instrument details\*

ISIN No/Banker Name	Instrument Name	Date of Issuance/Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
IDFC First Bank Limited	Term Loan-I	July 2020	NA	FY2025	50	[ICRA]BBB+ (Stable)
Kotak Mahindra Bank	Term Loan-II	April 2021	NA	FY2025	50	[ICRA]BBB+ (Stable)
NA	Term Loans - Unallocated	NA	NA	NA	300	[ICRA]BBB+ (Stable)

Source: Company

\*As on September 30, 2021

### Annexure-2: List of entities considered for consolidated analysis

Company Name	APAC Ownership	Consolidation Approach
APAC Housing Finance Private Limited	100%	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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