February 24, 2022

Aptus Finance India Private Limited: [ICRA]AA-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based – Term Loan	200.00	[ICRA]AA-(Stable); assigned
Total	**200.00**	

**Instrument details are provided in Annexure-1*

Rationale

Aptus Finance India Private Limited (AFIPL) is the wholly-owned subsidiary of Aptus Value Housing Finance India Ltd {Aptus; rated [ICRA]AA- (Stable)}. The rating is based on the consolidated profile of Aptus (parent) and AFIPL, henceforth referred to as the Aptus Group. AFIPL leverages on Aptus' branches and infrastructure for its loan origination and management and pays a fee to Aptus for the same.

The rating action factors in the Aptus Group's strengthened capital profile and track record of maintaining healthy profitability (return on managed assets (RoMA) in the range of 6.0-7.0% during FY2019-9M FY2022) and asset quality. ICRA takes note of the fresh equity infusion of Rs. 500 crore in Aptus pursuant to the initial public offering (IPO) in August 2021 and the healthy accretion of profits at the Group level (Rs. 260.3 crore in 9M FY2022; provisional), which strengthened its capitalisation profile. The consolidated managed gearing consequently improved to 0.8 times as on December 31, 2021 from 1.3 times as on March 31, 2021. The current capital profile would comfortably support portfolio growth, which is expected to be about 25-30% per annum, over the medium term.

The Aptus Group aligned its gross stage 3 (GS3) reporting with the non-performing advances (NPA) reporting under the Income Recognition, Asset Classification and Provisioning (IRACP) norms. Accordingly, the GS3 at the consolidated level increased to 1.5% from 0.7% in March 2021 (0.8% as of September 2021). However, the 90+ days past due (dpd) stood at 1.1% as of December 2021 vis-à-vis 0.8% as of December 2020 (0.7% as of March 2021). The rating continues to factor in the prudent internal controls and underwriting policies that support the asset quality performance. As of December 31, 2021, the Aptus Group had increased its overall provision coverage ratio (PCR) to 0.9% of the assets under management (AUM) in December 2021 from 0.4% in March 2021 and the provision cover on incremental additions to GS3 was maintained at 25.2%.

The rating takes cognisance of the Aptus Group's limited portfolio seasoning, moderate borrower profile (40% borrowers were new to credit as of December 2021) and geographically concentrated operations with Tamil Nadu (TN) and Puducherry together constituting 49% of the total portfolio as of December 2021, notwithstanding the improvement from 72% in March 2017. The rating also factors in Aptus' high share of non-housing loans (NHLs; 34% of the standalone portfolio as of December 2021).

ICRA notes that the key senior management personnel at Aptus, including Mr. P. Balaji {Executive Director (ED) & Chief Financial Officer (CFO)} and Mr. Subramaniam G (ED – Chief of Business & Risk), have a long association with the company. Mr. M. Anandan (Managing Director (MD) and Founder Promoter) has been key for the company's evolution since its inception in FY2010. Private equity firm, WestBridge, which holds about 37%, is also classified as the promoter and promoter group. Aptus' board, which would be instrumental in key strategic decisions and business plans for the Aptus Group, includes Mr. Anandan, five independent directors, two representatives from WestBridge and two non-executive directors. AFIPL has a five-director board comprising Aptus' ED & CFO and three other directors who are also on the board of Aptus. AFIPL has a limited managerial framework of its own and largely depends on support from the parent.

Key rating drivers and their description

Credit strengths

Strengthened capital profile to support medium-term growth – Aptus secured an equity infusion of Rs. 500 crore through an IPO and was subsequently listed in August 2021. Further, the Aptus Group reported healthy accretion of profits of Rs. 260.3 crore in 9M FY2022. Both these factors have improved the Group's net worth to Rs. 2,806.2 crore as on December 31, 2021 (provisional) from Rs. 1,979.5 crore as on March 31, 2021. Consequently, the consolidated managed gearing improved to 0.8 times as on December 31, 2021 from 1.3 times as on March 31, 2021. The consolidated gearing is expected to be capped at 4 times. Considering the growth plans, the gearing is not expected to exceed 3 times over the next three years.

Healthy profitability indicators – Aptus, on a consolidated basis, reported RoMA of 7.2% (provisional; annualised) in 9M FY2022 and 6.4% in FY2021 (6.3% in FY2020). The profitability is supported by healthy net interest margins and improving operating efficiency. The credit cost increased marginally to 0.7% (provisional; annualised) in 9M FY2022 from 0.1% in FY2021 because of higher provisioning (overall PCR increased to 0.9% in December 2021 from 0.4% in March 2021) and increase in GS3 following the revised IRACP norms. The operating cost ratio moderated over the past few years and remained under control at 2.4% (provisional; annualised) in 9M FY2022 and FY2021.

Going forward, the ability to keep the credit costs under control, in view of impact of the Covid-19 pandemic on its borrowers' cashflows, and maintain an optimal cost structure as the business expands would be crucial. ICRA expects the RoMA to stabilise at 5-6% over the near to medium term.

Prudent internal controls and underwriting policies support asset quality performance – While the target segment is largely the low income and self-employed category, a centralised credit appraisal mechanism and a conservative loan-to-value (LTV; about 87% of the portfolio had LTV ≤ 50 as on December 31, 2021), underpinned by prudent underwriting policies, mitigate the inherent risks to an extent. The Aptus Group has an in-house team for sourcing loans, scrutinising legal documents, technical valuation of properties, collection and recovery. It has created over 60 types of borrower profiles for credit assessment. It uses data from credit bureaus to screen the credit history of potential customers and undertakes cashflow assessment and analysis of the past savings of its borrowers, apart from assessing their income during credit appraisal to establish loan eligibility.

The Aptus Group has aligned its GS3 reporting with the IRACP norms clarification provided by the Reserve Bank of India (RBI) vide its circular dated November 12, 2021. Consequently, the GS3 inched up to 1.5% as of December 2021 from 0.8% as of September 2021 (0.7% in March 2021). However, without factoring in the impact of the RBI's circular, the GS3 was 1.1% as of December 2021. As of December 31, 2021, about 6% of the restructured portfolio had slipped into the GS3 category on account of the compliance with the revised IRACP norms and other genuine slippages. The outstanding standard restructured book stood at 1.3% of the portfolio as of December 31, 2021.

The Aptus Group had witnessed a marginal dip in its collection efficiency in October 2021 and November 2021 that resulted in an increase in the overall dpd. However, the collections improved in December 2021. The softer bucket delinquencies increased consequently with the 30+dpd reaching 12.3% as of December 2021 compared to 10.1% as of September 2021. ICRA notes that the forward flow to the harder buckets was limited in 9M FY2022. The 90+dpd (consolidated) remained in the range of 0.7-1.1% over the last six quarters. ICRA notes that sustained asset quality performance would be crucial, going forward, in view of the impact of the pandemic on the borrower-level cashflows.

Credit challenges

High proportion of NHL book; exposure to borrowers with modest credit profiles – On a standalone basis, Aptus' portfolio stood at Rs. 4,138.1 crore as of December 2021, with 66% towards HLs. The share of NHL remained high at 34% of the standalone book. About 25% of the overall portfolio in the standalone book was towards quasi-HLs; these are extended to borrowers, post house purchase or construction, for meeting their business or other requirements. These loans do not meet the National Housing Bank (NHB) guidelines for classification as HLs and are thus a part of the NHL book. AFIPL extends small business loans. The Aptus Group' consolidated portfolio stood at Rs. 4,805.3 crore in December 2021, with 55% of the total portfolio accounting for HLs.

The Aptus Group continues to have a relatively high exposure to the self-employed category (71% of the overall portfolio as of December 2021). Further, as of December 2021, 40% of its borrowers (in value terms) were new to credit. The target customers have limited access to credit from formal channels, given the lack of proper income documents, and are more susceptible to income shocks. The risk is, however, partly offset by the company's in-house origination and collection team, prudent appraisal and lending norms, adequate portfolio tracking systems and security in the form of self-occupied property.

Limited portfolio seasoning – Aptus has a moderate track record (in relation to the loan tenor) in the housing finance segment, having commenced operations in FY2010. It achieved AUM of Rs. 4,103.6 crore at a 5-year compound annual growth rate (CAGR) of 51% as on March 31, 2021. Considering the high growth, portfolio seasoning is low at present. Going forward, the Aptus Group is expected to grow at 25-30%.

Incorporated in FY2016, AFIPL commenced lending in FY2018 and the portfolio increased to Rs. 667.3 crore in December 2021 from Rs. 29.2 crore in March 2018. AFIPL has a limited track record in relation to its loan tenor of up to 10 years.

Geographically concentrated operations, notwithstanding steady improvement – The Aptus Group is a regional player with operations limited to four southern states, i.e. TN, Karnataka, Andhra Pradesh and Telangana, and the Union Territory (UT) of Puducherry with 202 branches as of December 2021. TN and Puducherry accounted for 49% of the total portfolio followed by Andhra Pradesh (30%), Telangana (12%) and Karnataka (9%). ICRA notes that the share of TN and Puducherry has declined from 72% as of March 2017 because of network expansion in other states.

The Group has planned to expand in the contiguous state of Odisha in the current fiscal. While the single state concentration is likely to improve over the medium term, the Group would predominantly remain a regional player with focus on penetration in the existing states for the medium-term growth of its operations.

Liquidity position: Strong

The Aptus Group has scheduled debt obligations of Rs. 471.1 crore during January 2022 to June 2022 while its contractual inflows for this period is estimated at Rs. 537.5 crore. Its monthly collection for the six months ended December 2021 (excluding prepayments) averaged Rs. 84.6 crore. Additionally, as of December 31, 2021, it had cash and liquid investments of Rs. 267.9 crore and unutilised sanctions of Rs. 565.0 crore, including Rs. 400.0 crore from NHB as of December 31, 2021, indicating strong liquidity.

The funding profile is characterised by funding from banks (49%), followed by NHB (26%), debentures (19%) and securitisation (6%) as of December 2021. Considering its robust growth plans, ICRA expects the Aptus Group to focus on long-tenor borrowings to keep the asset-liability mismatches under control. Also, it is important to diversify its funding sources.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the long-term rating if the Group is able to sustain a healthy financial performance and good asset quality while growing its portfolio.

Negative factors – Pressure on the rating could arise in case of an increase in the managed gearing beyond 4.0 times or a deterioration in the asset quality indicators (90+dpd above 2.5%), thereby impacting the earnings on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Company
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

About the company

Chennai-based Aptus Finance India Private Limited is a non-banking financial company, which extends mortgage loans to small and medium enterprises. It was incorporated in FY2016 and is a wholly-owned subsidiary of Aptus Value Housing Finance India Ltd. The portfolio value was Rs. 667.3 crore as of December 2021 on a standalone basis.

Aptus Value Housing Finance India Ltd is a housing finance company (HFC), incorporated in December 2009. It got listed on the stock exchange on August 24, 2021. Its 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 focused on self-employed customers with limited or no documentary evidence of their income and with limited access to funding from banks and larger HFCs.

In FY2021, Aptus (consolidated) reported a net profit of Rs. 266.9 crore on a total managed asset base of Rs. 4,534.9 crore compared with a net profit of Rs. 211.0 crore on a total managed asset base of Rs. 3,758.1 crore in FY2020. In 9M FY2022, the net profit stood at Rs. 260.3 crore (provisional) on a total managed asset base of Rs. 5,054.3 crore.

Key financial indicators

Aptus - Consolidated	FY2020	FY2021	9M FY2022*
Total income (Rs. crore)	523.7	655.2	605.9
Profit after tax (Rs. crore)	193.0[#]	266.9	260.3
Net worth (Rs. crore)	1,709.0	1,979.5	2,806.2
Loan book (Rs. crore)	3,125.4	4,004.0	4,736.2
Total managed assets (Rs. crore)	3,758.1	4,534.9	5,054.3
Return on managed assets (%)	6.3%[#]	6.4%	7.2%^
Return on net worth (%)	17.5%	14.5%	14.5%^
Gross gearing (times)	1.2	1.3	0.8
Gross stage 3 (%)	1.7%	0.7%	1.5%
Net stage 3 (%)	1.5%	0.5%	1.2%
Solvency (Net stage 3/Net worth)	2.7%	1.0%	1.2%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; ^Annualised*

[#] Adjusted for reversed deferred tax liability of Rs. 18.0 crore after considering the impact of the change in the tax rate

AFIPL - Standalone	FY2020	FY2021	9M FY2022*
Total income (Rs. crore)	75.9	109.2	105.4
Profit after tax (Rs. crore)	29.7#	49.5	46.7
Net worth (Rs. crore)	190.0	239.5	286.2
Loan book (Rs. crore)	427.8	577.7	659.1
Total managed assets (Rs. crore)	434.1	602.1	674.3
Return on managed assets (%)	9.1%#	9.5%	9.8%^
Return on net worth (%)	20.7%	23.0%	23.7%^
Gross gearing (times)	1.3	1.5	1.3
Gross stage 3 (%)	0.5%	0.5%	1.7%
Net stage 3 (%)	0.5%	0.4%	1.2%
Solvency (Net stage 3/Net worth)	1.0%	1.0%	2.7%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; ^Annualised*

 # Adjusted for reversed deferred tax liability of Rs. 0.2 crore after considering the impact of change in the tax rate

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Feb 24, 2022	-	-	-
1	Term Loans	Long Term	200.0	200.0	[ICRA]AA-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based – Term Loan	Simple
Long-term Fund Based – Term Loan (unallocated)	NA

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 analysing 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 are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Jan 17, 2022	NA	Jan 12, 2029	25.0	[ICRA]AA-(Stable)
NA	Term Loan	Feb 04, 2022	NA	Dec 31, 2027	50.0	[ICRA]AA-(Stable)
NA	Unallocated	NA	NA	NA	125.0	[ICRA]AA-(Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Aptus' Ownership	Consolidation Approach
Aptus Value Housing Finance India Ltd	100.00%	Full Consolidation
Aptus Finance India Private Limited	100.00% (rated entity)	Full Consolidation

Source: *Aptus' annual report FY2021*

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

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