June 21, 2022

APAC Financial Services Private Limited: Rating upgraded to [ICRA]A- (Stable) from [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Bank Lines – Term Loan	400	-	-
Long-term Fund-based Bank Lines	-	400	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Total	**400**	**400**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in APAC Financial Services Private Limited's (APAC FSPL) improving scale of operations while maintaining good control on asset quality, adequate capitalisation to support growth for the near to medium term, and growing borrowing relationships. The company's capitalisation was augmented by an equity infusion of Rs. 45 crore by the promoter in December 2021 and the net worth stood at ~Rs. 460 crore as on March 31, 2022. Notwithstanding the limited seasoning of the loan book, ICRA notes that APAC has demonstrated good control over asset quality, despite the challenging operating environment. 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 the Small Industries Development Bank of India (SIDBI) provides a cushion on the portfolio asset quality. The management's focus to build a secured, low ticket and granular loan book, coupled with the promoter and senior management's experience in the lending space, provides comfort. The company enhanced relationships with lenders in FY2022, besides reporting a reduction in the cost of funds (~200 bps lower in FY2022). ICRA also notes that APAC has inducted additional independent directors on the company's board.

The rating is, however, constrained by the company's modest scale of operations and limited, albeit improving, track record. ICRA notes that going forward, the borrowing level is expected to gradually increase with the scaling up of operations. Nonetheless, 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's ability to continue to scale -up its granular and secured lending operations profitably, maintain a well-diversified resource profile at competitive terms, and keep good control on asset quality on a sustained basis would remain critical from a credit perspective.

Key rating drivers and their description

Credit strengths

Adequate capitalisation to support growth over near to medium term – APAC had a net worth of ~Rs. 460 crore as on March 31, 2022, which remains adequate to support growth over the near to medium term. The promoter, Mr. Gunit Chadha, infused Rs. 45 crore equity in the company in December 2021, which augmented its net worth. Historically, the company has remained largely equity funded with limited borrowings. In FY2022, APAC augmented its borrowings profile to support the planned AUM ramp-up, although the draw down was limited as the company has adopted a measured approach towards growth due to uncertain economic conditions since early FY2021 owing to the Covid-19 pandemic. Going forward, the borrowing level is expected to gradually increase with the planned scaling up of operations. Nonetheless, the management's plan to maintain a prudent capitalisation level with the gearing not exceeding three times in the near term provides comfort.

High share of secured lending; increase in granularity of loan book – APAC is a retail micro, small and medium enterprise (MSME)-focused non-banking financial company (NBFC) with a significant share of secured loans secured by property; ~93% of the loan book was secured by property as on March 31, 2022). The company provides finance to micro and small enterprise and its stated objective is to build a secured, low ticket and granular portfolio. In this direction, the company has managed to lower the average ticket size of its loan book to less than Rs. 6 lakh as of March 2022 from Rs. 11 lakh as of March 2021 and Rs. 14 lakh in March 2020. The company has also significantly ramped-up its branch network in the last one year servicing 9,881 customers across 83 branches in seven states/union territories with an employee base of 714 as of March 31, 2022 compared with 3,345 customers served across 41 branches in seven states/union territories with an employee base of 399 as of March 31, 2021.

Experienced management team – APAC is promoted by Mr. Gunit Chadha (former CEO, Asia-Pacific and member of Global Group Executive Committee, Deutsche Bank), who had a 52.5% stake in the company as on March 31, 2022. Multiples Alternate Asset Management via Multiples Private Equity Fund II LLP and Plenty Private Equity Fund I Limited holds a 40.3% stake in APAC, while the balance is held by the company's leadership team (3.6%) and other investors (3.7%). APAC has also brought on board experienced professionals to head key businesses and functions. At present, APAC has a six-member board of directors, which includes Mr. Gunit Chadha as Managing Director, Mr. Shankar Dey as Executive Director, one non-founder member, one member from Multiples Private Equity and two independent directors (onboarded in FY2022). Multiples Private Equity exercises regular board engagement. Further, ICRA also notes the presence of two independent members on the company's credit committee.

Credit challenges

Modest scale of operations despite healthy ramp-up in FY2022 – APAC has a lending track record of ~four years with sizeable ramp-up in operations witnessed in FY2022. During the initial period of its operations, the company was focused on setting up its systems and policies and the vintage of portfolio remained low. The planned ramp-up in operations was impacted in FY2021 due to the pandemic, which led to the slowdown in disbursements during both the waves of the pandemic (Q1 FY2021 and Q4 FY2021/Q1 FY2022). The disbursements picked up in the subsequent quarters. The loan book stood at Rs. 581 crore as on March 31, 2022 compared with Rs. 355 crore as on March 31, 2021 (+64% YoY)). Nonetheless, the expansion in the branch network in FY2022 (no. of branches increased to 83 as of March 31, 2022 from 41 as of March 31, 2021) is a positive. Going forward, the company's ability to achieve a healthy scale-up in operations while improving profitability is a key monitorable.

Ability to maintain asset quality while scaling up to remain critical, though good control on asset quality demonstrated till date – APAC witnessed a moderation in asset quality in FY2022 with the gross non-performing assets (GNPA) and the net non-performing assets (NNPA) of 1.38% and 1.13%, respectively, as on March 31, 2022, compared with 0.51% and 0.26%, respectively, as on March 31, 2021. ICRA notes that a significant portion of the NPAs belong to the run-off portfolio, while the core portfolio (comprising MSME loans secured by property) had 90+dpd of 0.8% as of March 31, 2022. The company also had restructured loans outstanding accounting for 4.72% of the portfolio as of March 31, 2022, although the restructured loans outstanding in the core portfolio was 1.27% as of March 31, 2022. Despite the uptick in the NPA metrics and a restructured book, ICRA notes that the company has maintained good control over asset quality. Going forward, APAC's ability to maintain good control on asset quality, considering the expected scale-up in operations, will remain critical from a credit perspective.

Limited diversification in resource profile – The company's operations, thus far, were largely funded by equity and the borrowings were limited at Rs. 169.70 crore in March 2022 (although higher than the previous years). APAC has managed to augment its banking relationships in FY2022, increasing the no. of lenders to seven from three in FY2021. The company has also received in-principle sanctions from three additional lenders. Further, in FY2022, APAC also executed its first direct assignment transaction to diversify its resource profile. ICRA 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, albeit improving lending relationships as of March 31, 2022 and considering its growth plans for the near to medium term.

Liquidity position: Adequate

The company had borrowings outstanding of Rs. 169.70 crore and the on-balance sheet liquidity (comprising unencumbered cash and bank balance and liquid investments) stood at Rs. 63.54 crore as on March 31, 2022. Further, the company has undrawn bank lines of Rs. 90 crore. The available liquidity, without factoring in any inflows from the loan book, is adequate to cover all debt repayment obligations for the next six months. The monthly collections from the portfolio provide additional comfort. Further, the company aims to raise longer term debt to maintain its well-matched ALM profile and adequate near-term liquidity.

Rating sensitivities

Positive factors – ICRA could change the outlook to Positive or upgrade the rating(s) if the company has a healthy profitability trajectory while scaling up its granular and secured lending operations, build a well-diversified resource profile, and maintain a healthy asset quality, on a sustained basis.

Negative factors – Pressure on APAC's rating could arise if the leverage increases significantly (gearing of over 4 times) over the medium term, or if there is a sustained weakening in the asset quality, thereby putting pressure on the profitability.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Approach – Consolidation
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). APAC HFPL is in the process of amalgamating itself with the parent – APAC FSPL and no-objection certificate (NOC) from RBI has been received on May 12, 2022.

In FY2022, APAC reported a profit after tax (PAT) of Rs. 10.3 crore on a total income of Rs. 83.9 crore compared with a PAT of Rs. 4.4 crore on a total income of Rs. 60.6 crore in FY2021. The net worth was Rs. 458.6 crore as on March 31, 2022 with a capital adequacy ratio of 77.7% and a gearing of 0.4 times.

Key financial indicators (audited)

	FY2021	FY2022*
Total income (Rs. crore)	60.6	83.9
Pre-provisioning operating profit (Rs. crore)	15.0	21.1
Profit after tax (Rs. crore)	4.4	10.3
Net worth (Rs. crore)	400.6	458.6
Loan book (Rs. crore)	347.0	575.7
Total assets (Rs. crore)	477.1	654.1
Return on assets (%)	1.0%	1.8%
Return on net worth (%)	1.1%	2.4%
Gross gearing (times)	0.1	0.4
Gross NPA (%)	0.5%	1.4%
Net NPA (%)	0.3%	1.1%
Solvency (Net stage 3/Net worth)	0.2%	1.4%
CRAR (%)	89.3%	77.7%

*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	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					June 21, 2022	Nov 30, 2021	Apr 5, 2021	-	Mar 26, 2020
1	Long-term Fund-based Bank Lines	Long-term	400		[ICRA]A- (Stable)	-	-	-	-
2	Long-term Fund-based Bank Lines (Term Loans)	Long-term	-		-	[ICRA]BBB+ (Stable)	-	-	-
3	Long-term Fund-based Bank Lines (CC)	Long-term	-		-	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
4	Long-term Fund-based Bank Lines (Unallocated)	Long-term	-	--	-		[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Bank Lines	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 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 No./ Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-I	FY2021	NA	FY2025	25	[ICRA]A-(Stable)
NA	Term Loan-II	FY2022	NA	FY2026	50	[ICRA]A-(Stable)
NA	Term Loan-III	FY2022	NA	FY2025	50	[ICRA]A-(Stable)
NA	Term Loan-IV	FY2022	NA	FY2025	15	[ICRA]A-(Stable)
NA	Term Loan-V	FY2022	NA	FY2025	45	[ICRA]A-(Stable)
NA	Cash Credit	FY2023	NA	FY2027	75	[ICRA]A-(Stable)
NA	Cash Credit	FY2022	NA	NA	15	[ICRA]A-(Stable)
NA	Cash Credit	FY2022	NA	NA	5	[ICRA]A-(Stable)
NA	Cash Credit / Working Capital Facilities	FY2023	NA	NA	10	[ICRA]A-(Stable)
NA	Unallocated	FY2023	NA	NA	110	[ICRA]A-(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	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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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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