January 06, 2023

APAC Financial Services Private Limited: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank lines	600	900	[ICRA]A- (Stable); assigned/reaffirmed
Total	**600**	**900**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in APAC Financial Services Private Limited's (APAC FSPL) improving scale of operations along with its good control over the asset quality, adequate capitalisation for its near-to-medium-term growth and expanding 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. 469 crore[1] as on September 30, 2022. Notwithstanding the limited seasoning of the loan book, ICRA notes that APAC[2] has demonstrated satisfactory control over the asset quality, despite the challenging operating environment in the recent past owing to the Covid-19 pandemic. The management's focus on building a secured (with a sizeable proportion of the portfolio backed by self-occupied residential properties), low ticket and granular loan book, coupled with the promoter and senior management's experience in the lending space, provides comfort. From FY2022, the company enhanced its relationships with lenders to support the envisaged growth in the assets under management (AUM).

The rating is, however, constrained by the company's modest scale of operations and limited, albeit improving, track record. ICRA notes that the borrowing level is expected to increase with the scaling up of operations. Nonetheless, the management plans to maintain a prudent capitalisation level with the gearing not exceeding 3 times in the near term. Going forward, the company's ability to continue to scale up its granular and secured lending operations profitably, maintain a well-diversified resource profile on competitive terms, and keep good control over the 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 near-to-medium-term growth – APAC had a net worth of Rs. 469 crore as on September 30, 2022, which remains adequate to support its 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 was largely equity-funded with limited borrowings. In FY2022, APAC augmented its borrowing profile to support the planned AUM ramp-up, although the drawdown was limited as it adopted a measured approach towards growth during the pandemic. Subsequently, the borrowings increased with the pickup in disbursement momentum.

The company raised funds of Rs. 220 crore from various lenders in H1 FY2023 compared to Rs. 250 crore in FY2022. The borrowings outstanding, as on September 30, 2022, stood at Rs. 364 crore with a gearing of 0.8 times. Going forward, the

[1] As per unaudited financials

[2] APAC FSPL and its wholly owned subsidiary, APAC Housing Finance Private Limited, are together referred to as APAC or the APAC Group or the company

borrowing level is expected to increase with the planned scaling-up of the operations. Nonetheless, it is noted that the management plans to maintain a prudent capitalisation level with the gearing not exceeding 3 times in the near term.

High share of secured lending; increased 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 its loan book secured by property (~99% as on September 30, 2022 compared to ~93% as on March 31, 2022). The company provides finance to micro and small enterprises and its stated objective is to build a secured, low ticket and granular portfolio. It managed to lower the average ticket size of its loan book to Rs. 5.3 lakh as of September 2022 (Rs. 6 lakh as of March 2022) from Rs. 14 lakh in March 2020. The company has also significantly ramped up its branch network in the last one and a half years, serving 14,619 customers across 95 branches in seven states/Union Territories (UTs) with an employee base of 838 as of September 30, 2022 compared with 9,881 customers, 83 branches, seven states/UTs and 714 employees as of March 31, 2022.

Experienced management team – APAC is promoted by Mr. Gunit Chadha (former Chief Executive Officer (CEO), Asia-Pacific and member of Global Group Executive Committee, Deutsche Bank), who had a 52.5% stake in the company as on September 30, 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 (Managing Director), Mr. Shankar Dey (CFO & 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. 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 last two years – APAC has a lending track record of over four years with sizeable ramp-up in its operations witnessed in the last two years. During the initial period of its operations, the company was focused on setting up its systems and policies; hence, the vintage of the portfolio remains low. The planned ramp-up in operations was impacted in FY2021 due to the pandemic, which led to a slowdown in disbursements during both waves of the pandemic (Q1 FY2021 and Q4 FY2021/Q1 FY2022). Disbursements picked up in subsequent quarters. Thereafter, the loan book witnessed a healthy ramp-up and stood at Rs. 771 crore as on September 30, 2022 compared to Rs. 581 crore as on March 31, 2022 and Rs. 355 crore as on March 31, 2021. The company expanded its branch network in H1 FY2023 with the number of branches increasing to 95 as of September 30, 2022 from 83 as of March 31, 2022 and 41 as of March 31, 2021. Going forward, the company's ability to continue to scale up its granular and secured lending operations profitably would remain critical from a credit perspective.

Ability to maintain asset quality while scaling up to remain critical, though good control over asset quality demonstrated till date – APAC's headline asset quality metrics have hitherto remained under control with a gross non-performing assets (GNPA) ratio and a net NPA (NNPA) ratio of 1.1% and 0.9%, respectively, as on September 30, 2022 (GNPA of 2.2% on a one-year lagged basis). While the company wrote off loans aggregating Rs. 16.5 crore in H1 FY2023, it is noted that these primarily belonged to the legacy run-off portfolio and the credit cost associated with the core portfolio has not witnessed an adverse trend. The company had a modest restructured loan book aggregating 1.1% of the portfolio as on September 30, 2022 (4.7% as on March 31, 2022).

While it had seen some moderation in the headline asset quality metrics in FY2022 with GNPA and NNPA of 1.4% and 1.1%, respectively, as on March 31, 2022, compared with 0.5% and 0.3%, respectively, as on March 31, 2021, the same remained satisfactory. A significant portion of the NPAs belonged to the run-off portfolio, while the core portfolio (comprising loans secured by property) witnessed 90+ days past due (dpd) of 0.8% as of March 31, 2022 (0.9% as of September 30, 2022). Going forward, APAC's ability to maintain good control on the asset quality, considering the expected scale-up in operations, will remain a monitorable.

Limited diversification in resource profile – The company's operations, thus far, were largely funded by equity while borrowings were limited. Subsequently, it augmented its lending relationships to 10 as of September 2022 (6 as of March 2022 and 1 as of March 2021) to raise funds for the planned scale-up of its operations. The borrowings outstanding increased to Rs. 361 crore as on September 30, 2022 (gearing of 0.8 times) from Rs. 169 crore as on March 31, 2022 (gearing of 0.4 times). Further, in FY2022, APAC executed its first direct assignment transaction to diversify its resource profile, although its borrowings are primarily from banks/financial institutions.

ICRA notes that the leverage would increase from the current level with incremental debt-funded business. Nevertheless, the management's plan to maintain a prudent capitalisation level with the gearing not exceeding 3 times provides comfort. APAC's ability to build a well-diversified resource profile on competitive terms on a sustained basis would remain critical given its limited, albeit improving, lending relationships as of September 2022, the rising interest rates and its near-to-medium-term growth plans.

Liquidity position: Adequate

The company had borrowings aggregating Rs. 364 crore as on September 30, 2022, while the on-balance sheet liquidity (comprising unencumbered cash and bank balance and liquid investments) stood at Rs. 72.6 crore on that date. Further, it has undrawn sanctioned limits of Rs. 78 crore. The available liquidity, without factoring in any inflows from the loan book, is adequate to cover all debt repayment obligations till March 2023. Moreover, the company aims to raise longer-term debt to maintain a well-matched asset liability management (ALM) profile and adequate near-term liquidity. There were no ALM mismatches as per the statement as of September 30, 2022.

Rating sensitivities

Positive factors – ICRA could change the outlook to Positive or upgrade the rating if the company has a healthy profitability trajectory while scaling up its granular and secured lending operations, and is able to build a well-diversified resource profile and maintain 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 (90+ dpd increasing beyond 5%), 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	Consolidation

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). It 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 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) through National Company Law Tribunal (NCLT) process and a no-objection certificate (NOC) was received from the RBI on May 12, 2022.

In H1 FY2023, APAC reported a profit after tax (PAT) of Rs. 7.2 crore on a total income of Rs. 73.8 crore compared with a PAT of Rs. 11.1 crore on a total income of Rs. 84.5 crore in FY2022. The net worth was Rs. 468.8 crore as on September 30, 2022 with a capital adequacy ratio of 60.3% and a gearing of 0.8 times.

Key financial indicators (audited)

APAC (consolidated)	FY2021	FY2022	H1 FY2023*
Total income	60.5	84.5	73.8
Pre-provisioning operating profit	14.2	19.9	20.1
Profit after tax	4.4	11.1	7.2
Net worth	400.6	459.5	468.8
Loan book (net)	347.0	574.7	772.9
Total assets	477.1	652.0	856.1
Return on assets	1.0%	2.0%	2.2%
Return on net worth	1.1%	2.6%	3.3%
Gross gearing (times)	0.1	0.4	0.8
Gross NPA	0.5%	1.4%	1.1%
Net NPA	0.3%	1.1%	0.9%
Solvency (Net stage 3/Net worth)	0.2%	1.4%	1.5%
CRAR	95.1%	73.3%	60.3%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Unaudited*

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 Sep 30, 2022 (Rs. crore)	Date & Rating in FY2023			Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Jan 06, 2023	Jun 28, 2022	Jun 21, 2022	Nov 30, 2021	Apr 5, 2021	-	Mar 26, 2020
1	Long-term fund-based bank lines	Long term	900.0	364.0	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term fund-based bank lines**	FY2021	NA	FY2025-FY2027	900	[ICRA]A- (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	APAC Ownership	Consolidation Approach
APAC Financial Services Private Limited	Rated Entity	Full consolidation
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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