December 06, 2023

Aptus Finance India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based – Term Loan	500.00	500.00	[ICRA]AA-(Stable); Reaffirmed
Total	500.00	500.00	

**Instrument details are provided in Annexure I*

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 reaffirmation factors in the Aptus Group's strong capital profile and its track record of maintaining healthy profitability (return on managed assets (RoMA) in the range of 7.0-8.0% during FY2022-H1 FY2024) and asset quality. The consolidated AUM increased at a compound annual growth rate (CAGR) of 32% during FY2020-FY2023, reaching Rs. 6,738 crore as of March 2023, and by 28% year-on-year (YoY) to Rs. 7,604 crore as of September 2023. However, considering the high growth rate, the portfolio seasoning is low at present. ICRA expects the Group to maintain an AUM growth rate of about 30-35% over the near to medium term.

The Group's gross stage 3 (GS3) remained comfortable at 1.2% as of September 2023 (1.2% as of March 2023) and the restructured book stood at a modest level of 0.7% of the portfolio. The rating continues to factor in the prudent internal controls and underwriting policies that support the asset quality. The Group had increased its overall provision coverage ratio (PCR) to 1.1% as of September 2023 (1.1% as of March 2023) from 0.8% as of March 2022 while the provision cover on the GS3 was maintained at 25.0%. ICRA notes that the Group's leverage has largely remained stable, supported by strong internal accruals, with its managed gearing at 1.2 times as of September 2023. Going forward, the Group's strong capitalisation is expected to sufficiently support the envisaged portfolio growth over the near to medium term.

Key rating drivers and their description

Credit strengths

Strong capital profile to support medium-term growth – Supported by steady internal accruals, the Group's consolidated net worth improved to Rs. 3,539.9 crore as on September 2023 (Rs. 3,339.3 crore as of March 2023) from Rs. 2,916.2 crore as of March 2022. Despite the strong AUM growth of 30% in FY2023 and 28% (YoY) as of September 2023, the company's leverage has remained stable. The consolidated managed gearing stood at 1.2 times as on September 30, 2023 (1.1 times as of March 2023 and 0.9 times as of March 2022). The Group last raised capital in FY2022 via an initial public offering of Rs. 500 crore. The company targets to maintain its managed gearing below 4.0 times in the medium term, considering its growth plans.

Healthy profitability indicators– The Group, on a consolidated basis, reported RoMA of 7.6% (provisional; annualised) in H1 FY2024 and 7.8% in FY2023 (7.2% in FY2022). The profitability continues to be supported by healthy net interest margins and operating efficiency. The credit cost reduced marginally to 0.2% (annualised) in H1 FY2024 from 0.5% in FY2023 (0.7% in FY2022), given the improving asset quality performance and lower write-offs. The operating cost ratio has moderated over the past few years and remained under control at 2.6% (annualised) in H1 FY2024 and 2.5% in FY2023 (2.3% in FY2022). Going forward, the ability to keep the credit costs under control and maintain an optimal cost structure as the business expands would be crucial.

Prudent internal controls and underwriting policies support asset quality performance – While the target segment is primarily the low and middle income and self-employed category, a centralised credit appraisal mechanism and a conservative loan-to-value (LTV; 85.3% of the portfolio had LTV of 50% or below as on September 2023), underpinned by prudent underwriting policies, mitigate the inherent risks to an extent. The company has an in-house team for sourcing loans, scrutinising legal documents, technical valuation of properties, collection and recovery. Aptus has created over 60 types of borrower profiles for credit assessment. It uses data from the 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 Group's asset quality remains healthy, with the GS3 moderating to 1.2% in September 2023 (1.2% in March 2023) from 1.5% in September 2022 (1.2% in March 2022). Further, the softer bucket delinquencies have improved, with 30+ days past due (dpd) of 6.0% as of September 2023 (5.9% as of March 2023) vis-à-vis 9.9% as of March 2022.

Credit challenges

High proportion of non-housing loan (NHL) book; exposure to borrowers with modest credit profiles – On a standalone basis, Aptus' portfolio stood at Rs. 6,092 crore in September 2023, with 68% towards housing loans (HLs). The share of non-housing loans (NHLs) remained high at 32% of the standalone book. About 24% of the overall portfolio in the standalone book was towards quasi-HLs; these are extended to borrowers, post house purchase or construction. These loans do not meet the National Housing Bank (NHB) guidelines for classification as HLs and are thus a part of the NHL book. Aptus' consolidated portfolio stood at Rs. 7,604 crore in September 2023, with 59% of the total portfolio accounting for HLs.

The Group continued to have a relatively high exposure to the self-employed category (72% of the overall portfolio as of September 2023). Further, as of September 2023, 38% of its borrowers 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, as it commenced operations in FY2010. It achieved consolidated AUM of Rs. 6,738 crore at a 5-year CAGR of 37% as on March 31, 2023. Considering the high growth, the portfolio seasoning is low at present. Going forward, the Group's portfolio is expected to grow at a CAGR of 30-35%.

Geographically concentrated operations, notwithstanding steady improvement – The operations of Aptus Group is predominantly focused in four southern states, i.e. Tamil Nadu (TN), Karnataka, Andhra Pradesh and Telangana, and the Union Territory (UT) of Puducherry with 250 branches as of September 2023. The Group has also expanded to Odisha in the current fiscal, though its contribution to the Group's portfolio is currently negligible. TN and Puducherry accounted for 40% of the total portfolio followed by Andhra Pradesh (38%), Telangana (14%) and Karnataka (8%). ICRA notes that the share of TN and Puducherry has declined from 72% as of March 2017 because of network expansion in other states. While single state concentration is likely to improve over the medium term, the Group would predominantly focus on penetration in the existing states for the medium-term growth of its operations.

Environmental and social risks

While financial institutions like the Aptus Group do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which these financial institutions have an exposure, face business disruption because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory, or customer behaviour changes, the same could translate into credit risks for financial institutions. However, such risk is not material for the Aptus Group as it benefits from adequate portfolio diversification.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as material lapses could be detrimental to their reputation and invite regulatory censure. The Aptus Group has not faced such lapses over the years, which highlights its sensitivity to such risks. Customer preferences are increasingly shifting towards digital banking, a phenomenon that provides an opportunity to reduce operating costs. The Aptus Group has been at the forefront of making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to the under-served segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Strong

The Group's asset-liability maturity (ALM) profile, as of September 2023, reflected positive cumulative mismatches across all buckets. As of September 2023, the company had on balance-sheet liquidity of Rs.384 crore, undrawn sanctions of Rs. 300 crore from NHB and Rs.290 crore from banks. The company is also expected to have monthly collections of ~ Rs. 140- 160 crore between October 2023 and March 2024. As against this, the scheduled debt repayments totals to Rs.807 crore in H2FY2024, reflecting it's strong liquidity position.

The funding profile is characterised by funding from banks (62%), followed by NHB (26%), debentures (7%) and securitisation (5%) as of September 2023. Considering its robust growth plans, ICRA expects the 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 – The ratings could be positively impacted if the Group is able to sustain its 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	ICRA's Credit Rating Methodology for Non-banking Finance Companies Rating Approach-Consolidation
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, a housing finance company (HFC), was incorporated in December 2009. The company got listed on the stock exchange on August 24, 2021. Its target borrowers are from the low and 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 primarily focused on self-employed customers with limited or no documentary evidence of their income and limited access to funding from banks and larger HFCs.

Aptus' wholly-owned subsidiary, Aptus Finance India Private Limited, extends mortgage loans to small and medium enterprises. On a standalone basis, Aptus Finance's AUM was about Rs. 1,512 crore as on September 30, 2023.

Aptus (consolidated) reported a net profit of Rs. 503.0 crore on a total managed asset base of Rs. 7,247 crore in FY2023 compared with Rs. 370 crore and Rs. 5,725 crore, respectively, in FY2022. The net profit stood at Rs. 290 crore in H1 FY2024 on a total managed asset base of Rs. 7,969 crore.

Key financial indicators (consolidated)

Aptus	FY2021	FY2022	FY2023	H1FY2024*
Total income	658.2	840.2	1,129.0	659.3
Profit after tax	266.9	370.1	503.0	290.3
Net worth	1,979.5	2,916.2	3,339.3	3,539.9
Loan book	4,004.0	5,119.7	6,663.1	7,511.5
Total assets	4,520.2	5,684.0	7,176.3	7,891.7
Return on managed assets	6.4%	7.2%	7.8%	7.6%
Return on net worth	14.5%	15.1%	16.1%	16.9%
Managed Gearing (times)	1.3	0.9	1.1	1.2
Gross stage 3	0.7%	1.2%	1.2%	1.2%
Net stage 3	0.5%	0.9%	0.9%	0.9%
Solvency (Net stage 3/Net worth)	1.0%	1.6%	1.7%	1.9%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore*

Key financial indicators (Standalone)

AFIPL-Standalone	FY2021	FY2022	FY2023	H1FY2024*
Total income	112.2	143.5	172.7	138.8
Profit after tax	49.5	62.4	79.0	53.1
Net worth	239.5	301.9	381.0	434.1
Loan book	577.7	679.2	954.9	1,484.1
Total assets	602.1	697.7	992.2	1,524.7
Return on managed assets	9.5%	9.6%	9.4%	8.4%
Return on net worth	23.0%	23.1%	23.1%	26.1%
Gearing (times)	1.5	1.3	1.6	2.5
Gross stage 3	0.5%	1.6%	1.7%	1.2%
Net stage 3	0.4%	1.0%	1.3%	1.0%
Solvency (Net stage 3/Net worth)	1.0%	2.2%	3.2%	3.5%
CRAR#	36.9%	41.6%	39.2%	28.7%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; # Standalone numbers*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Dec 06, 2023	Dec 13, 2022	Mar 29,2022 Feb 24,2022	-
1	Long-term Fund based – Term Loan	Long Term	500.0	323.95	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based – Term Loan	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 – Term Loan**	Apr 2020	NA	Jan 2029	323.95	[ICRA]AA-(Stable)
NA	**Long-term Fund based – Term Loan (Unallocated)**	NA	NA	NA	176.05	[ICRA]AA-(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	Aptus Ownership	Consolidation Approach
Aptus Value Housing Finance India Limited	100% (rated entity)	Full Consolidation
Aptus Finance India Private Limited	100%	Full Consolidation

Source: Aptus annual report FY2023

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

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