

June 28, 2024

APAC Financial Services Private Limited: Rating upgraded to [ICRA]A (Stable) from [ICRA]A- (Stable); 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	1,100	1,300	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable) and assigned for enhanced amount
Total	1,100	1,300	

*Instrument details are provided in Annexure I

Rationale

The rating upgrade factors in APAC Financial Services Private Limited's (APAC or the company) improving scale of operations and profitability, low leverage and augmented capitalisation following the equity infusion in March 2024, and enhanced borrowing relationships along with good control on its asset quality. APAC scale of operations improved in FY2024, with its assets under management (AUM) growing by 51%. A similar growth trajectory is expected in the near-to-medium term, given the company's high growth aspirations. In this regard, the recently concluded equity raise augurs well for APAC. It received an equity infusion of Rs. 400 crore in Q4 FY2024 from institutional investors – Norwest Capital LLC (Norwest) and Rajamahendra Chola Limited (Creador), in equal proportions with each holding a 9.67% stake as on March 31, 2024.

While the borrowing level is likely to increase with the scaling up of operations, the company is expected to maintain a prudent capitalisation level with the gearing not exceeding 3 times in the medium term. The increase in the profitability metrics was supported by the AUM ramp-up and improving cost-to-income ratio. Moreover, the reported headline asset quality metrics remain stable, notwithstanding the limited seasoning of the loan book.

The above positives are, however, partially offset by the low portfolio seasoning, geographically concentrated operations, and the modest credit profile of the target customer segment. Further, the scale of operations remains moderate despite the growth trajectory. Nonetheless, comfort is derived from the secured, low-ticket and granular portfolio; the entire loan book is secured by property while self-occupied residential property (SORP) accounted for ~90% of the same. The limited diversification in the borrowing profile, notwithstanding the improvement in the borrowing relationships in recent years, also remains a monitorable. Going forward, the company's ability to continue to scale up its granular and secured lending operations profitably, maintain comfortable capitalisation and 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.

The Stable outlook reflects ICRA's expectation that APAC will continue to maintain an adequate capitalisation profile and will profitably scale up its granular lending book while maintaining good control over the asset quality.

Key rating drivers and their description

Credit strengths

Improved capitalisation – APAC's capitalisation is characterised by a net worth of Rs. 948.7 crore and a gearing of 1.1 times as on March 31, 2024. Moreover, the capital-to-risk weighted assets ratio (CRAR) stood at 40.9% as on March 31, 2024, comfortably above the regulatory requirement of 15%. The capital profile stands augmented following the equity infusion of Rs. 402 crore in March 2024. Institutional investors – Norwest and Creador hold a stake of 9.67% each (as on March 31, 2024). The improved capital position is expected to support the AUM scale-up, which is projected to increase at a compound annual

growth rate (CAGR) of ~40% during FY2025-FY2027. In this regard, while the borrowing level is expected to increase going forward, with the scaling-up of operations, the company is likely to maintain a prudent capitalisation level with the gearing not exceeding 3 times in the medium term.

Improving profitability; good control over asset quality – APAC's profitability improved in FY2024, supported by the AUM growth. The company reported a profit after tax (PAT) of Rs. 61.7 crore in FY2024 compared to Rs. 24.0 crore in FY2023. The profitability metrics improved with PAT/average managed assets (AMA) of 3.8% and return on average net worth (RoE; PAT/average net worth) of 8.6% in FY2024 compared to 2.6% and 5.1%, respectively, in FY2023. The profitability was boosted by the scale-up in the operations, supported by healthy yields, low leverage and benign credit costs. Going forward, APAC's ability to continue enhancing the operating efficiency while keeping tight control over the credit costs, given the growth trajectory for the near term, remains imperative for further improvement in the profitability on a sustained basis.

APAC's headline asset quality metrics have hitherto remained under control with the gross stage 3 (GS-3) and net stage 3 (NS-3) of 0.8% and 0.5%, respectively, as on March 31, 2024 compared to 1.2% and 0.9%, respectively, as on March 31, 2023. The GS-3, on a 1-year lagged basis, stood at 1.2% as on March 31, 2024. The company has demonstrated good control over the asset quality, notwithstanding the limited portfolio seasoning, resulting in controlled credit costs. The credit costs¹ stood at Rs. 11.3 crore in FY2024 compared to Rs. 16.2 crore in FY2023 and Rs. 10.3 crore in FY2022. The interim increase in the credit costs primarily pertained to the run-off portfolio while the credit cost associated with the core portfolio (comprising secured micro and small loans) has not witnessed an adverse trend till now. The company had a small, restructured loan book, aggregating 0.2% of the portfolio as on March 31, 2024 (compared to the peak of 4.7% as on March 31, 2022). Also, the 30+ days past due (dpd) improved to 1.2% as of March 31, 2024 from 1.8% as of March 31, 2023 and 5.0% as of March 31, 2022. APAC's ability to maintain the asset quality and continue improving the profitability trajectory, amid sizeable branch expansion plans, remains a monitorable.

Secured and granular loan book – APAC is a retail micro, small and medium enterprise (MSME)-focused non-banking financial company (NBFC) with the stated objective of building a secured, low-ticket and granular portfolio. The entire loan book was secured by property as on March 31, 2024 (~99% as on March 31, 2023 and ~93% as on March 31, 2022), with SORP accounting for ~90% of the underlying collateral as on that date. The average ticket size (ATS) stood at Rs. 5.2 lakh in FY2024, compared to ~Rs. 14 lakh in FY2020 while the average loan-to-value (LTV) was ~40%. The average yield is ~22-23% for micro loans and ~14-16% for small loans (~6% of the AUM as on March 31, 2024). The door-to-door loan tenor is 6-10 years. In terms of collections, ~99% is through digital and banking channels.

Credit challenges

Low portfolio seasoning; modest credit profile of target customer segment – APAC commenced its lending operations in FY2019, although it ramped up its operations significantly after the Covid-19 pandemic. The loan book rose at a CAGR of ~65% during FY2022-FY2024. A similar growth trajectory is expected in the near-to-medium term with a CAGR of ~40% during FY2025-FY2027. The seasoning of the portfolio thus remains limited as the operations ramped up significantly in the post-pandemic period, starting Q2 FY2022.

Also, the target customer segment primarily comprises micro and small business owners and self-employed individuals with a modest credit profile and limited credit history. New-to-credit customers comprised ~35% of the AUM as on March 31, 2024. Notwithstanding the modest target customer profile, softer delinquencies remain under control with 0+ dpd of 1.7% and 30+ dpd of 1.2% as on March 31, 2024. However, APAC remains susceptible to the incremental credit risk inherent to its target customer segment, given its growth aspirations. Thus, its ability to maintain good control over the asset quality, as the portfolio seasons and considering the expected scale-up in operations, will remain a monitorable.

¹ Credit costs = provisions + write offs (net of recoveries)

Geographically concentrated operations – APAC’s operations remained concentrated in six states as on March 31, 2024 with the top 3 states of Tamil Nadu (43%; PY: 39%), Andhra Pradesh (25%; PY:30%) and Rajasthan (17%; PY:12%) accounting for 85% of the AUM as on March 31, 2024 compared to 81% as on March 31, 2023. Further, APAC is exposed to intense competition in some of these geographies due to the presence of more established players. Nonetheless, it achieved significant branch network expansion during FY2022-FY2024, adding 105 branches during this period. It plans to add ~50 branches in FY2025, taking the total branch count to ~200 by March 2025. ICRA also notes the ramp-up in APAC’s customer base comprising 30,813 customers across 146 branches in six states as on March 31, 2024 compared to 20,184 customers across 122 branches as on March 31, 2023.

Limited diversification in resource profile, notwithstanding augmentation in borrowing relationships – APAC’s borrowings are largely from banks and select large NBFCs. Historically, the company’s operations were largely funded by equity while dependence on borrowings was limited. However, it augmented its lending relationships significantly during FY2023-FY2024, onboarding some reputed private and public sector banks. It had ~21 banking relationships as on March 31, 2024 compared to ~15 as on March 31, 2023 and 6 as on March 31, 2022. Further, the company received enhancements (in limits and tenor) from existing lenders. The cost of funds, however, increased due to the hardening of systemic interest rates.

ICRA notes that APAC plans to diversify its borrowing profile through securitisation, non-convertible debentures, etc, during FY2025-FY2026. It had executed its first direct assignment transaction in Q2 FY2022 (through its housing finance subsidiary, which was subsequently merged in to APAC). ICRA notes that dependence on borrowings would increase from the current level with incremental debt-funded business. In this regard, APAC’s ability to build a well-diversified resource profile on competitive terms on a sustained basis would remain critical for achieving its near-to-medium-term growth plans.

Liquidity position: Adequate

APAC’s liquidity profile remains adequate with positive cumulative mismatches in the 1-year bucket. The company had borrowings outstanding of Rs. 1,050.9 crore as on March 31, 2024. It had an unencumbered cash and bank balance of Rs. 116.3 crore and liquid investments of Rs. 303.4 crore as on that date, augmented by the capital infusion in March 2024. Further, APAC had undrawn working capital limits of Rs. 37 crore as on March 31, 2024 with cumulative debt repayment obligations of Rs. 382.2 crore for the next one year. The on-balance sheet liquidity and inflows from the loan book are adequate to meet the repayment obligations for the next one year. The monthly collection efficiency from the portfolio provides additional comfort. Further, the company aims to maintain a well-matched asset-liability management (ALM) profile.

Rating sensitivities

Positive factors – An improvement in the earnings profile while scaling up the granular and secured lending operations significantly would be a positive factor. Further, meaningful diversification in the resource profile, maintaining healthy asset quality, and a comfortable capital profile on a sustained basis could lead to a rating upgrade.

Negative factors – A significant increase in the leverage (gearing of over 4 times) over the medium term or a sustained weakening in the asset quality (90+ dpd increasing beyond 4%), thereby putting pressure on the profitability on a sustained basis, or any sizeable weakening in the liquidity profile would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

APAC Financial Services Private Limited (APAC) is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). It predominantly provides secured granular loans to micro and small enterprises. The company received its certificate of registration as a non-deposit taking NBFC from the RBI on February 21, 2018. APAC had a wholly-owned subsidiary – APAC Housing Finance Private Limited (APAC HFPL), which was registered as a housing finance company (HFC) in May 2018 with National Housing Bank (NHB). However, the HFC was merged into the parent, w.e.f. January 29, 2024, post receipt of requisite regulatory approvals, including final approval from the National Company Law Tribunal (NCLT), Mumbai Bench, vide the order dated January 11, 2024.

APAC has been promoted by Mr. Gunit Chadha (former Chief Executive Officer (CEO), Asia-Pacific and member of Global Group Executive Committee, Deutsche Bank), who had a 42.46% stake in the company as on March 31, 2024 (down from 52.39% as on March 31, 2023, post equity infusion of Rs. 400 crore by Norwest and Creador in March 2024). The key institutional shareholders are Multiples Alternate Asset Management (via Multiples Private Equity Fund II LLP and Plenty Private Equity Fund I Limited) with a 32.78% stake, followed by Norwest and Creador with 9.67% each. The balance is held by certain high-net-worth individual investors and employees (largely the leadership team).

The company had 30,813 customers across 146 branches in six states as on March 31, 2024 compared to 20,184 customers and 122 branches as on March 31, 2023. It reported a PAT of Rs. 61.7 crore in FY2024 on total income of Rs. 298.8 crore. The net worth stood at Rs. 948.7 crore with a gearing of 1.1 times as on March 31, 2024.

Key financial indicators (audited)

	FY2022	FY2023	FY2024
Total income	84.5	173.5	298.9
PAT	11.1	24.0	61.7
Total managed assets	662.0	1,193.8	2,056.6
Return on managed assets*	1.9%	2.6%	3.8%
Reported gearing (times)	0.4	1.4	1.1
Gross stage 3	1.4%	1.2%	0.8%
CRAR	73.1%	43.6%	40.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Return on assets (RoA) stood at 2.0% in FY2022, 2.6% in FY2023 and 3.8% in FY2024

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2025)		Chronology of Rating History						
		Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023			Date & Rating in FY2022	
				Jun 28, 2024	Sep 8, 2023	Jan 6, 2023	Jun 28, 2022	Jun 21, 2022	Nov 30, 2021	Apr 5, 2021
1 Long-term fund-based bank lines	Long term	1,300.0	1,037.0	[ICRA]A (Stable)	[ICRA]A- (Stable)	[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)
4 Long-term fund-based bank lines (unallocated)	Long term	-	-	-	-	-	-	-	-	[ICRA]BBB+ (Stable)

*As on May 31, 2024

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	NA	NA	NA	1,300	[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

Not applicable

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Branches



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