

August 19, 2024

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 | 750.00 | 750.00 | [ICRA]AA-(Stable); reaffirmed |
| Total | 750.00 | 750.00 | |

*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-FY2024) and asset quality. The consolidated AUM increased at a compounded annual growth rate (CAGR) of 31% during FY2020-FY2024, reaching Rs.8722 crore as of March 2024. (Rs 9,072 crore as of June 2024). 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% over the near-to-medium term.

The Group's gross stage 3 (GS3) remained comfortable at 1.3% as of June 2024 and 1.1% as of March 2024 (1.2% as of March 2023) and the restructured book stood at a modest level of less than 0.4% of the portfolio. The rating continues to factor in the prudent internal controls and underwriting policies that support the asset quality. The Group maintained its overall provision coverage ratio (PCR) at 1.1% as of June 2024 and March 2024 (1.1% as of March 2023), 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 1.4 times as of June 2024 and March 2024. Going forward, the Group's strong capitalisation is expected to sufficiently support the envisaged portfolio growth over the medium term.

The Stable outlook factors in ICRA's expectations that the company would be able to maintain a stable asset quality performance and healthy profitability, while sustaining its portfolio growth over the 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.3,817.5 crore as of June 2024 (Rs. 3,767.9 crore as of March 2024) from Rs. 3,339.3 crore as of March 2023. Despite the strong AUM growth of 30% in FY2024, the company's leverage has remained stable. The consolidated managed gearing stood at 1.4 times as of June 2024 and March 2024 (1.1 times as of March 2023). 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 over the medium term, considering its growth plans.

Healthy profitability indicators – The Group, on a consolidated basis, reported RoMA of 7.4% in Q1FY2025 (provisional; annualized) and 7.5% in FY2024. The profitability continues to be supported by healthy net interest margins and operating efficiency. Credit costs declined to 0.2% in Q1FY2025 (0.3% in FY2024) compared to 0.5% in FY2023 given the stable asset quality performance, lower write-offs and provisioning. The operating cost ratio has moderated over the years; however, with increase in employee costs, opex had increased marginally in the past few years and remained under control at 2.6% in Q1FY2025 and 2.5% in FY2024 (2.5% in FY2023 and 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; 91% of the portfolio had LTV of 50% or below as of March 2024), 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.

Aptus Group has a track record of maintaining a healthy asset quality over the years. Given the secured nature of its exposures, write-offs and delinquencies have remained under control over the years. Its GS3 was of 1.3% as of June 2024 and 1.1% in March 2024 (1.2% in March 2023). Softer bucket delinquencies have also improved over the last two years, with 30+ days past due (dpd) of 6.3% as of June 2024 (5.4% as of March 2024 and 5.9% as of March 2023) vis-à-vis 9.9% as of March 2022.

Credit challenges

High proportion of NHL book; exposure to borrowers with modest credit profiles – On a standalone basis, Aptus' portfolio stood at Rs. 6,759.0 crore in March 2024, with 69% towards housing loans (HLs). The share of non-housing loans (NHLs) remained high at 31% of the standalone book. About 23% of the overall portfolio in the standalone book was towards quasi housing loans. Although these loans fall under the housing loan segment by end use, regulatory restrictions prevent from categorizing them as housing loans and they are thus a part of the NHL book. Aptus' consolidated portfolio stood at (Rs 9,072 crore as of June 2024) and Rs. 8,721.9 crore in March 2024, with 60% of the total portfolio accounting for HLs.

The Group continued to have a relatively high exposure to the self-employed category (74% of the overall portfolio as of March 2024). Further, as of March 2024, 26% 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.9,072 crore as of June 2024 (Rs. 8,721.9 crore at a 5-year CAGR of 31% as on March 31, 2024). 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 267 branches as of June 2024. The Group also expanded to Odisha and Maharashtra in the previous fiscal, though its contribution to the Group's portfolio is currently negligible. Andhra Pradesh accounted for 40% of the total portfolio followed by TN and Puducherry (37%), Telangana (15%) and Karnataka (8%). ICRA notes that the share of TN and Puducherry has declined from 72% as of March 2017 as the Group has gradually diversified into other states. While single state concentration is likely to improve over the medium term, the Group would focus on penetration in the existing states and the new states of Maharashtra and Odisha for the medium-term growth of its operations. To this extent 12 branches are proposed to be opened in Maharashtra and Odisha in FY2025.

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 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 March 2024, reflected positive cumulative mismatches across all buckets. As of June 2024, the company had a comfortable liquid balance and undrawn sanctions of Rs.907 crore including undrawn sanctions from National Housing Bank vis-à-vis its scheduled debt repayments of Rs.837 crore until December 2024.

The funding profile is characterised by funding from banks (63%), followed by NHB (24%), debentures (6%) and securitisation (7%) as of March 2024. Considering its robust growth plans, ICRA expects the Group to focus on long-tenor borrowings to keep the asset-liability mismatches under control. Incrementally, it would be important to diversify its funding sources.

Rating sensitivities

Positive factors – The rating 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 |
| 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. 9-10 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. 1,963 crore as on March 31, 2024.

Aptus (consolidated) reported a net profit of Rs. 611.9 crore on a total managed asset base of Rs. 9,092 crore in FY2024 compared with Rs. 503.1 crore and Rs. 7,247 crore, respectively in FY2023, In Q1FY2025, the net profit stood at Rs.171.7 crore on a total managed asset base of Rs. 9,478 crore.

Key financial indicators (consolidated)

| Aptus | FY2023 | FY2024 | Q1FY2025* |
|---------------------------|---------|---------|-----------|
| Total income [#] | 1,129.0 | 1,409.2 | 403.6 |
| Profit after tax | 503.0 | 611.9 | 171.7 |
| Total Managed assets | 7,247.1 | 9,091.9 | 9,478.3 |
| Return on managed assets | 7.8% | 7.5% | 7.4% |
| Gearing (times) | 1.1 | 1.4 | 1.4 |
| Gross stage 3 | 1.2% | 1.1% | 1.3% |
| CRAR | 77.4% | 73.0% | 71.8% |

Source: Company, ICRA Research; * Provisional numbers; # bad debt recovery has been netted off under credit cost; All ratios as per ICRA's calculations;

Amount in Rs. crore

Key financial indicators (Standalone)

| AFIPL-Standalone | FY2023 | FY2024 | Q1FY2025* |
|---------------------------|--------|---------|-----------|
| Total income [#] | 172.7 | 323.6 | 104.8 |
| Profit after tax | 79.0 | 129.5 | 44.5 |
| Total Managed assets | 992.2 | 2,024.0 | 2,142.4 |
| Return on managed assets | 9.4% | 8.6% | 8.6% |
| Gearing (times) | 1.6 | 2.9 | 2.8 |
| Gross stage 3 | 1.7% | 1.0% | 1.3% |
| CRAR [#] | 39.2% | 28.5% | 29.6% |

Source: Company, ICRA Research; * Provisional numbers; # bad debt recovery has been netted off under credit cost; 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 | Type | Amount Rated (Rs. crore) | Chronology of Rating History for the Past 3 Years | | | | |
|------------------------------------|-----------|--------------------------|---|--|-------------------------|-------------------|----------------------------|
| | | | Current Rating (FY2025) | | Date & Rating in FY2024 | | Date & Rating in FY2023 |
| | | | Date & Rating in FY2025 | | Date & Rating in FY2024 | | Date & Rating in FY2023 |
| | | | Aug 19,2024 | | Mar 31, 2024 | Dec 06, 2023 | Dec 13, 2022 |
| | | | | | | | Mar 29,2022 Feb 24,2022 |
| 1 Long-term Fund based – Term Loan | Long Term | 750.0 | [ICRA]AA-(Stable) | | [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 | 613.14 | [ICRA]AA-(Stable) |
| NA | Long-term Fund based – Term Loan (Unallocated) | NA | NA | NA | 136.86 | [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 | - | 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 wholly-owned subsidiary while assigning the ratings

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