December 14, 2021

Aptus Value Housing Finance India Limited: Long-term rating upgraded to [ICRA]AA-(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture programme	276.00	276.00	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Stable)
Non-convertible Debenture programme	125.00	-	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Stable) and withdrawn
Bank Facilities	1,610.00	1,610.00	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Stable)
Total	**2,011.00**	**1,886.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating is based on the consolidated profile of Aptus Value Housing Finance India Limited (Aptus) and its fully-owned subsidiary – Aptus Finance India Private Limited (Aptus Finance). The rating action factors in Aptus' strengthened capital profile and track record of maintaining healthy profitability (return on managed assets (RoMA) in the range of 5.9-6.5% during FY2019-H1 FY2022) and asset quality. ICRA takes note of the fresh equity infusion of Rs. 500 crore pursuant to the initial public offering (IPO) in August 2021, that strengthened the capitalisation profile. The consolidated managed gearing consequently improved to 0.9 times as on September 30, 2021 from 1.3 times as on March 31, 2021. The current capital profile would comfortably support portfolio growth, which is expected to be about 25-30% per annum, over the medium term.

Aptus' gross stage 3 (GS3) remained at 0.8% as of September 2021 compared to 0.7% in March 2021 (1.1% as of June 2021) and the standard restructured book stood at 1.5%. ICRA takes note of the elevation in the softer bucket overdues post the Covid-19 pandemic, while slippages to harder buckets were contained. The rating continues to factor in the prudent internal controls and underwriting policies that support the asset quality performance. Aptus had increased its overall provision coverage ratio (PCR) to 0.7% of the gross carrying value (GCA) as of September 2021 from 0.4% as of March 2021 while the net stage 3 to net worth ratio (solvency) stood modest at 1.0% in September 2021. However, from a rating perspective, it would be critical to contain the softer bucket overdues and limit incremental slippages going forward.

The rating takes cognizance of Aptus' limited portfolio seasoning, high share of non-housing loans (NHLs; 35% of the standalone portfolio as of September 2021), moderate borrower profile (40% borrowers were new to credit as of September 2021) and its geographically concentrated operations with Tamil Nadu (TN) and Puducherry together constituting 50% of the total portfolio as of September 2021, notwithstanding the improvement from 72% in March 2017.

ICRA notes that the key senior management personnel, namely Mr. P. Balaji {Executive Director & Chief Financial Officer (CFO)} and Mr. Subramaniam G (Executive Director - Chief of Business & Risk), and other key senior management personnel have a long association with the company. Mr. M. Anandan (Managing Director (MD), Chief Executive Officer (CEO) and Founder Promoter) has been key for the company's evolution since its inception in FY2010. Private equity firm, WestBridge, which holds about 37%, is also classified as the promoter and promoter group. The board, which would be instrumental in key strategic decisions and business plans, includes Mr. Anandan, five independent directors, two representatives from WestBridge and two non-executive directors.

ICRA has also upgraded and withdrawn the rating on the Rs. 125-crore non-convertible debenture (NCD) programme in accordance with ICRA's policy on the withdrawal of credit ratings as the instrument has matured and is fully repaid.

Key rating drivers and their description

Credit strengths

Strengthened capital profile to support medium-term growth – Aptus secured an equity infusion of Rs. 500 crore through an IPO and was subsequently listed in August 2021. This improved its net worth to Rs. 2,702.6 crore as on September 30, 2021 (provisional) from Rs. 1,979.5 crore as on March 31, 2021. Consequently, the consolidated managed gearing improved to 0.9 times as on September 30, 2021 from 1.3 times as on March 31, 2021. The gearing is expected to be capped at 4 times; considering the growth plans, it is not expected to exceed 3 times over the next 3 years.

Healthy profitability indicators – Aptus, on a consolidated basis, reported RoMA of 6.5% (provisional; annualised) in H1 FY2022 and 6.4% in FY2021 (6.3% in FY2020). The profitability is supported by good net interest margins and operating efficiency. The credit cost increased marginally to 0.6% (provisional, annualised) from 0.1% in FY2021 because of increased provisioning (PCR increased to 0.7% in September 2021 from 0.4% in March 2021). The operating cost ratio moderated over the past few years and remained under control at 2.4% (provisional, annualised) in H1 FY2022 and FY2021.

Going forward, the ability to keep the credit costs under control, in view of impact of the pandemic on its borrowers' cashflows, and maintain an optimal cost structure as the business expands would be crucial. ICRA expects the RoMA to stabilise at 5-6% over the near to medium term.

Prudent internal controls and underwriting policies support asset quality performance – While the target segment is largely the low income and self-employed category, a centralised credit appraisal mechanism and a conservative loan-to-value (LTV; about 87% of the portfolio had LTV <=50 as on September 30, 2021), 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 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 GS3 moderated to 0.8% in September 2021 from 1.1% in June 2021 (0.7% in March 2021) as collections improved post the impact of the second wave of the pandemic. Aptus had not restructured any of its portfolio pursuant to the Restructuring Framework 1.0. However, it restructured under the Restructuring Framework 2.0 with outstanding of 1.5% of the portfolio as on September 30, 2021.

The softer bucket increased, recording 30+ days past due (dpd) of 13.4% as of June 2021 compared to 8.9% as of March 2021 because of the second wave induced challenges. However, it improved in Q2 FY2022 to 11.0% as of September 2021. ICRA notes that forward flow to the harder buckets was limited in H1 FY2022 on the back of a steady improvement in the collection efficiency[1], which improved to over 99% from July 2021. The 90+dpd (consolidated) remained at around 1% over the last six quarters. ICRA notes that the sustained asset quality performance would be crucial going forward in view of the impact of the pandemic on the borrower-level cashflows.

Credit challenges

High proportion of NHL book; exposure to borrowers with modest credit profiles – On a standalone basis, Aptus' portfolio stood at Rs. 3,846.7 crore in September 2021, with 65% towards HLs. The share of NHL remained high at 35% of the standalone book. About 26% of the overall portfolio in the standalone book was towards quasi-HLs; these are extended to borrowers, post house purchase or construction, for meeting their business or other requirements. These loans do not meet the National

[1] *Current collection + arrears / total monthly demand*

Housing Bank (NHB) guidelines for classification as HLs and are thus a part of the NHL book. Aptus' consolidated portfolio stood at Rs. 4,482.1 crore in September 2021, with 54% of the total portfolio accounting for HLs.

Aptus continued to have a relatively high exposure to the self-employed category (72% of the overall portfolio as of September 2021). Further, as of September 2021, 40% 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, having commenced operations in FY2010. It achieved assets under management (AUM) of Rs. 4,103.6 crore at a 5-year compound annual growth rate (CAGR) of 51% as on March 31, 2021. Going forward, Aptus is expected to grow at 25-30%. Considering the envisaged growth, portfolio seasoning is low at present.

Geographically concentrated exposure profile, notwithstanding steady improvement – Aptus is a regional player with operations limited to the four southern states of TN, Karnataka, Andhra Pradesh and Telangana, and the Union Territory (UT) of Puducherry with 198 branches as of September 2021. Of these, TN and Puducherry accounted for 50% of the total portfolio followed by Andhra Pradesh (29%), Telangana (11%) and Karnataka (10%). ICRA notes that the share of TN has declined from 72% as of March 2017 because of network expansion in other states. The company has planned to expand in the contiguous states of Odisha and Maharashtra in the current fiscal. While the single state concentration is likely to improve over the medium term, Aptus would predominantly remain a regional player with focus on penetration in the existing states for the medium-term growth of its operations.

Liquidity position: Strong

Aptus' asset-liability maturity (ALM) profile, as of September 2021, reflects no cumulative mismatches in the less-than-one-year bucket. The company had cash and liquid investments of Rs. 735.9 crore as of September 2021 with debt obligations of Rs. 409.9 crore during October 2021 to March 2022. Additionally, it had Rs. 100 crore of sanctioned but unutilised funding lines from banks, indicating strong liquidity.

The funding profile is characterised by funding from banks (47%), followed by NHB (31%) debentures (17%) and securitisation (5%) as of September 2021. ICRA notes that the company has largely secured longer-tenor (5-7 years) funding in the past, with about 57% of the total borrowings outstanding as on September 30, 2021 having contractual maturity of 7 years and above. Considering its robust growth plans, ICRA expects Aptus 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 – ICRA could revise the outlook to Positive or upgrade the long-term rating if the company is able to sustain a 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 earnings on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Rating Methodology for Non-Banking Finance Companies] [Policy on Withdrawal of Credit Ratings]
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 to 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 largely focused on self-employed customers with limited or no documentary evidence of their income and with 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. 635 crore as on September 30, 2021.

In FY2021, Aptus (consolidated) reported a net profit of Rs. 266.9 crore on a total managed asset base of Rs. 4,103.6 crore compared with a net profit of Rs. 211.0 crore on a total managed asset base of Rs. 3,758.1 crore in FY2020. In H1 FY2022, the net profit stood at Rs. 158.8 crore (provisional) on a total managed asset base of Rs. 4,482.1 crore.

Key financial indicators (consolidated)

Aptus	FY2020	FY2021	H1 FY2022*
Total income (Rs. crore)	523.7	655.2	389.1
Profit after tax (Rs. crore)	193.0#	266.9	158.8
Net worth (Rs. crore)	1,709.0	1,979.5	2,702.6
Loan book (Rs. crore)	3,125.4	4,004.0	4,407.8
Total assets (Rs. crore)	3,755.0	4,534.3	5,196.8
Return on managed assets (%)	6.3%#	6.4%	6.5%^
Return on net worth (%)	17.5%	14.5%	13.6%^
Gross gearing (times)	1.2	1.3	0.9
Gross stage 3 (%)	0.7%	0.7%	0.8%
Net stage 3 (%)	0.4%	0.5%	0.6%
Solvency (Net stage 3/Net worth)	2.7%	1.0%	1.0%
CRAR (%)	82.5%	73.6%	92.3%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA calculations; ^Annualised*

 # Adjusted for reversed deferred tax liability of Rs. 18.0 crore after considering impact of change in tax rate

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Dec 14, 2021	Dec 29, 2020	Nov 18, 2019	Dec 18, 2018	Jun 21, 2018 Jun 11, 2018
1	Non-convertible Debentures	LT	276.00	276.00	**[ICRA]AA- (Stable)**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Non-convertible Debentures	LT	125.00	-	**[ICRA]AA- (Stable); upgraded and withdrawn**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Bank Facilities	LT	1,610.00	1,610.00	**[ICRA]AA- (Stable)**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	

LT – Long term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debentures	Simple
Bank Facilities	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/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE852O07089	NCD	Jul 20, 2018	10.00%	Jul 20,2025	125.00	[ICRA]AA-(Stable); upgraded and withdrawn
INE852O07071	NCD	Jun 20,2018	10.00%	Jun 20, 2025	50.00	[ICRA]AA-(Stable)
INE852O07097	NCD	Aug 20, 2018	10.00%	Aug 20, 2025	125.00	[ICRA]AA-(Stable)
INE852O07105	NCD	Jan 08, 2019	NA	Nov 03, 2025	101.00	[ICRA]AA-(Stable)
Axis Bank	Term Loan	Mar 27, 2020		Mar 27, 2027	176.00	[ICRA]AA-(Stable)
Axis Bank	Term Loan	Mar 08, 2021		Mar 06, 2029	75.00	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	Sep 09, 2015		Sep 09, 2022	2.31	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	May 31, 2016		May 31, 2022	1.25	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	Jun 07,2016		May 31, 2022	1.88	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	Apr 29, 2017		Oct 25, 2022	4.00	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	Jun 19, 2017		Oct 25, 2022	4.00	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	Jul 28, 2017		Jul 28, 2022	4.50	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	Oct 19, 2017		Jul 28, 2022	2.25	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	Apr 23, 2018		Apr 23, 2023	6.00	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	Apr 23, 2018		Apr 23, 2025	20.00	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	Mar 26, 2019		Mar 26, 2024	12.08	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	May 18,2019		Mar 26, 2024	12.50	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	Oct 25, 2019		Oct 25, 2024	15.00	[ICRA]AA-(Stable)
HDFC Bank	Term Loan	May 26, 2021		May 26, 2026	27.50	[ICRA]AA-(Stable)
ICICI Bank	Term Loan	Dec 16, 2015		Dec 31, 2022	0.63	[ICRA]AA-(Stable)
Federal Bank	Term Loan	Aug 28, 2017		Aug 28, 2024	4.29	[ICRA]AA-(Stable)
Federal Bank	Term Loan	Sep 26, 2017		Sep 26, 2024	17.14	[ICRA]AA-(Stable)
Federal Bank	Term Loan	Jun 29, 2018		Jun 14, 2025	17.14	[ICRA]AA-(Stable)
Federal Bank	Term Loan	Sep 29, 2018		Jun 14, 2025	11.43	[ICRA]AA-(Stable)
Federal Bank	Term Loan	Mar 30, 2019		Mar 30, 2024	7.50	[ICRA]AA-(Stable)
South Indian Bank	Term Loan	Dec 31, 2018		Dec 31, 2024	19.50	[ICRA]AA-(Stable)
Kotak Mahindra Bank	Term Loan	Dec 21, 2018		Dec 21, 2023	12.50	[ICRA]AA-(Stable)
Kotak Mahindra Bank	Term Loan	Mar 12, 2019		Mar 12, 2024	13.89	[ICRA]AA-(Stable)
IndusInd Bank	Term Loan	Mar 30, 2019		Mar 30, 2026	21.25	[ICRA]AA-(Stable)
Catholic Syrian Bank	Term Loan	Mar 29, 2019		Sep 29, 2024	18.00	[ICRA]AA-(Stable)
Bank of Baroda	Term Loan	Jun 28, 2019		Jun 12, 2024	53.33	[ICRA]AA-(Stable)
Yes Bank	Term Loan	Dec 30, 2020		Dec 30, 2027	26.43	[ICRA]AA-(Stable)
Indian Bank	Term Loan	Mar 31, 2021		Mar 30, 2027	74.98	[ICRA]AA-(Stable)
Unallocated	Bank Facilities	NA	NA	NA	947.72	[ICRA]AA-(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Aptus Ownership	Consolidation Approach
Aptus Value Housing Finance India Limited	100.00% (rated entity)	Full Consolidation
Aptus Finance India Private Limited	100%	Full Consolidation

Source: *Aptus annual report FY2021*

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

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