December 13, 2022

Aptus Value Housing Finance India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	276.00	276.00	[ICRA]AA- (Stable); Reaffirmed
Long-term -Fund Based – Term Loan	662.28	1,610.00	[ICRA]AA-(Stable); Reaffirmed
Long-term -Fund Based – Unallocated	947.72	0.00	-
Total	**1,886.00**	**1,886.00**	

**Instrument details are provided in Annexure I*

Rationale

While arriving at the rating, ICRA has considered the consolidated profile of Aptus Value Housing Finance India Limited (Aptus) and its fully-owned subsidiary – Aptus Finance India Private Limited (Aptus Finance).

The reaffirmation of the rating takes into consideration the steady growth in the assets under management (AUM) of the Aptus Group in FY2022 and H1 FY2023. The consolidated AUM grew by 26% to Rs. 5,180 crore as of March 2022 and by 29% (annualised) to Rs. 5,932 crore as of September 2022. Going forward, ICRA expects the Aptus Group to maintain a healthy growth rate at 25-30% over the medium term. The rating also factors in the Aptus Group's strengthened capital profile and track record of maintaining healthy profitability (return on managed assets (RoMA) in the range of 6.0-8.0% during FY2019-H1 FY2023) and asset quality. The consolidated managed gearing stood at 1.2 times as of September 2022 against 0.9 times as of March 2022. The current capital profile would comfortably support the envisaged portfolio growth over the medium term.

The Aptus Group's gross stage 3 (GS3) remained comfortable at 1.5% as of September 2022 (1.2% as of March 2022) 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 performance. The Aptus Group had increased its overall provision coverage ratio (PCR) to 1.0% of the AUM as of September 2022 from 0.8% as of March 2022 (0.4% as of March 2021) and the provision cover on incremental additions to GS3 was maintained at 25.0%.

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 (Chairman and Managing Director (CMD) 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.

Key rating drivers and their description

Credit strengths

Strengthened capital profile to support medium-term growth –In FY2022,the Aptus Group secured an equity infusion of Rs. 500 crore through an IPO, strengthening its capital profile. Coupled with the steady internal accruals, the Group's consolidated net worth improved to Rs. 3,175 crore as on September 30, 2022 (Rs. 2,916 crore as on March 31, 2022) from Rs. 1,980 crore as on March 31, 2021. The consolidated managed gearing stood at 1.2 times as on September 30, 2022 against 0.9 times as on March 31, 2022. The gearing is expected to be lower than 4 times in the medium term, considering the growth plans.

Healthy profitability indicators – Aptus, on a consolidated basis, reported RoMA of 7.6% (provisional; annualised) in H1 FY2023 and 7.2% in FY2022 (6.4% in FY2021). The profitability continues to be supported by healthy net interest margins and operating efficiency. The credit cost continues to remain marginally higher at 0.6% (annualised) in H1FY2023 (0.7% in FY2022) vis-à-vis 0.1% in FY2021 because of the increased provisioning (PCR increased to 1.0% in September 2022 from 0.4% in March 2021). The operating cost ratio moderated over the past few years and remained under control at 2.4% (annualised) in H1 FY2023 and 2.3% in FY2022.

Going forward, the ability to keep the credit costs under control, in view of impact of the Covid-19 pandemic on its borrowers' cashflows 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; about 84% of the portfolio had LTV <=50 as on September 30, 2022), 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 had 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 of the Group moderated to 1.5% in September 2022 from 1.8% in June 2022 (1.2% in March 2022). The outstanding restructured book stood at 0.7% of the portfolio as on September 30, 2022.

The softer bucket improved, recording 30+ days past due (dpd) of 6.3% as of September 2022 from 9.9% as of March 2022. The 90+dpd (consolidated) remained at around 1.2-1.7% 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 non-housing loan (NHL) book; exposure to borrowers with modest credit profiles – On a standalone basis, Aptus' portfolio stood at Rs. 5,216 crore in September 2022, with 68% towards HLs. The share of NHL 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, for meeting their business or other requirements. 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. 5,932 crore in September 2022, with 58% of the total portfolio accounting for HLs.

The Aptus Group continued to have a relatively high exposure to the self-employed category (72% of the overall portfolio as of September 2022). Further, as of September 2022, 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, having commenced operations in FY2010. It achieved consolidated AUM of Rs. 5,180 crore at a 5-year compounded annual growth rate (CAGR) of 30% as on March 31, 2022. Considering the high growth, the portfolio seasoning is low at present. Going forward, the Aptus Group's portfolio is expected to grow at 25-30%.

Geographically concentrated operations, notwithstanding steady improvement –The Aptus Group is a regional player with operations limited to four southern states, i.e. TN, Karnataka, Andhra Pradesh and Telangana, and the Union Territory (UT) of Puducherry with 213 branches as of September 2022. The Group has expanded to Odisha in the current fiscal. TN and Puducherry accounted for 46% of the total portfolio followed by Andhra Pradesh (33%), Telangana (13%) 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 the single state concentration is likely to improve over the medium term, the Group would predominantly remain a regional player with 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 on whom 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, it 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 vulnerabilities for financial institutions as any material lapses could be detrimental to the reputation and invite regulatory censure. The Aptus Group hasn't faced such lapses over the years which highlights its sensitivity to such risks. The Aptus Group is seen to be operating responsibly in terms of its selling practices with no instances of fines imposed by regulatory authorities because of misconduct. Customer preferences are increasingly shifting towards digital banking, a phenomenon that provides an opportunity to reduce operating costs. It has been at the forefront of making the requisite investments to enhance its digital interface with its customers. While the Aptus Group contributes to promoting financial inclusion by lending to the under-served segments, its lending practices remain prudent as reflected in healthy asset quality numbers in this segment compared with its peers

Liquidity position: Strong

The Aptus Group's asset-liability maturity (ALM) profile, as of September 2022, reflects no cumulative mismatches in the less-than-one-year bucket. The company had cash and liquid investments of Rs. 1,008 crore as of September 2022 with debt obligations of Rs. 361 crore during October 2022 to March 2023. Additionally, it has Rs. 500 crore of sanctioned but unutilised funding lines from NHB.

The funding profile is characterised by funding from banks (63%), followed by NHB (20%) debentures (11%) and securitisation (5%) as of September 2022. 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 – ICRA could revise the outlook to Positive or upgrade the long-term rating if the Group 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 the earnings on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-Banking Finance Company
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 primarily 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. 716 crore as on September 30, 2022.

In FY2022, Aptus (consolidated) reported a net profit of Rs. 370 crore on a total managed asset base of Rs. 5,725 crore compared with a net profit of Rs. 267 crore on a total managed asset base of Rs. 4,535 crore in FY2021. In H1 FY2023, the net profit stood at Rs. 242 crore on a total managed asset base of Rs. 7,017 crore.

Key financial indicators (consolidated)

Aptus	FY2021	FY2022	H1 FY2023*
Total income (Rs. crore)	655.2	840.2	525.8
Profit after tax (Rs. crore)	266.9	370.1	242.1
Net worth (Rs. crore)	1,979.5	2916.2	3174.8
Loan book (Rs. crore)	4,004.0	5,119.7	5,872.6
Total managed assets (Rs. crore)	4,534.3	5,725.0	7,016.8
Return on managed assets (%)	6.4%	7.2%	7.6%
Return on net worth (%)	14.5%	15.1%	15.9%
Gearing (times)	1.3	0.9	1.2
Gross stage 3 (%)	0.7%	1.2%	1.5%
Net stage 3 (%)	0.5%	0.9%	1.1%
Solvency (Net stage 3/Net worth)	1.0%	1.6%	2.1%
CRAR (%)	73.6%	85.6%	80.3%

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

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 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Dec 13, 2022	Dec 14, 2021	Dec 29, 2020	Nov 18, 2019
1	**Non-convertible Debentures**	LT	276.00	276.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	**Long-term - Fund based – Term Loan**	LT	1,610.00	1,485.32	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

4	**Long-term - Fund based-Unallocated**	LT	0.00	0.00	-	[ICRA]AA-(Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	**Short Term Debt**	ST	0.00	0.00	-	-	-	[ICRA]A1; withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple
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
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	10.36%	Nov 03, 2025	101.00	[ICRA]AA-(Stable)
NA	**Long-term -Fund based – Term Loan**	Dec-2015	-	June-2029	1,485.32	[ICRA]AA-(Stable)
NA	**Long-term -Fund based – Term Loan (Unallocated)**	NA	-	NA	124.68	[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 FY2022

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

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Ramya G
+91 44 4596 4309
ramya.g@icraindia.com

Krishan Kumar Saini
+91 124 4545 442
krishan.saini@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches