November 18, 2019

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures (NCDs)	601.00	601.00	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Long-term Fund-based Term Loan	895.00	569.26	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Long Term – Unallocated		1,035.74	
Long-term Fund Based – Cash Credit	5.00	5.00	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Short-term Debt	200.00	0.00	[ICRA]A1; withdrawn
Total	**1,701.00**	**2,211.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade considers Aptus' ability to scale up the portfolio while maintaining healthy profitability and a good asset quality profile. This, along with the recent capital infusion of Rs. 880 crore in September 2019, further augments its overall credit risk profile. While ICRA notes that the portfolio is not fully seasoned because of the steep growth during April 2017 to March 2019 (CAGR of 62%), the same would remain monitorable over the medium term as Aptus envisages its portfolio to increase at a CAGR of 55-60% during April 2019 to March 2022. The managed[1] gearing is expected to remain comfortably below 4.0 times, during the above-mentioned period, without any need for a fresh equity infusion, which provides comfort. The profitability indicators with return on average managed assets (PAT/AMA) of 5.8% in FY2018 as well as FY2019, compared to the prior three-year average of 4.2% (FY2015-FY2017; IGAAP), are largely supported by low leverage and a steady improvement in operating efficiencies while credit costs remain low. ICRA notes that the profitability (PAT/AMA) would moderate from the current levels as the leverage increases and the portfolio seasons. However, it is expected to remain at healthy levels of about 4.5% over the next three years if the credit losses are kept under control.

The rating also takes note of the company's exposure to borrowers with modest credit profiles with a significantly high share of first-time borrowers and a relatively high proportion of the non-housing loan (NHL) portfolio. The rating also takes cognisance of Aptus' moderate track record and scale and its geographically concentrated operations with Tamil Nadu (TN) and Puducherry together constituting 58% of the total portfolio as of September 2019. While ICRA takes comfort from the experienced senior management team, the keyman risk associated with the promoter (Mr. Anandan) is a concern as many key stakeholders draw comfort from his active involvement in the management of the company. In view of the high envisaged portfolio growth, Aptus would also have to considerably diversify its borrowing profile from

[1] *Including assigned book*

current levels to maintain adequate liquidity and secure funding at competitive rates. This would also remain a medium-term monitorable from a rating perspective.

ICRA has withdrawn the rating of [ICRA]A1 on the short-term debt, at the request of the company, as the instrument was not placed and there is no amount outstanding against the rated instrument.

Key rating drivers and their description

Credit strengths

Sizeable capital infusion to support medium-term growth while maintaining a comfortable capital profile – Aptus secured an equity infusion of about Rs. 800 crore, which improved its net worth to Rs. 1,575 crore in September 2019 (provisional) from Rs. 699 crore in March 2019 (Rs. 585 crore in March 2018). Consequently, its managed gearing also improved to 1.2 times in September 2019 from 2.3 times in March 2019 (1.4 times in March 2018). ICRA expects Aptus to keep the managed gearing at about 4.0 times over the medium term, considering the underlying risk profile of the current target segment and as it envisages a high portfolio growth rate of 55-60% over the next three years. Aptus would not require any external capital over the next three years for achieving the envisaged portfolio growth.

Stable and healthy profitability indicators; improvement in operating efficiency offsets margin contraction – Aptus' profitability has remained healthy and rangebound over the last two fiscals as operating efficiencies continued to improve with the business scale while credit costs remained low. The company reported a return on average managed assets (RoMA) of 5.8% in FY2018 as well as FY2019 compared to the prior three-year average of 4.2% (FY2015-FY2017; IGAAP) as operating costs improved to 3.6% in FY2019 (3.0% (provisional) in H1 FY2020) from 4.2% in FY2018 vis-à-vis an average of 5.2% during FY2015-FY2017 (IGAAP). ICRA notes the contraction in the interest margins as leverage increased during FY2018-FY2019 and as it carried additional liquidity on its books. The credit costs, however, remained low at 0.1-0.3% over the last five years. Aptus reported RoMA of 5.6% (provisional; 6.2% adjusted for surplus cash) in H1 FY2020. ICRA expects the profitability to remain healthy in FY2020 on the back of the equity infusion in September 2019 and further improvement in operating efficiencies with an increase in scale. Going forward, ICRA expects the RoMA to stabilise at 4.5%, over the medium term, if the company can keep its credit costs under control.

Good asset quality, characterised by healthy collections and supported by good appraisal and monitoring systems – The asset quality profile has remained good with gross NPA of 0.7% as of September 2019 (0.8% in September 2018, 0.4% in March 2019 and 0.5% in March 2018). The asset quality is uplifted by heathy collection efficiency (about 99% in FY2019 and H1 FY2020), prudent appraisal and lending norms, and adequate portfolio tracking and internal control systems. While the target segment is largely the low income and self-employed category, a conservative loan-to-value (LTV; about 86% of the portfolio had LTV of <=50% as on September 30, 2019) underpinned by prudent underwriting policies, mitigates the associated inherent risks to an extent. The company has an in-house team for sourcing loans, scrutinising legal documents and for the technical valuation of properties. It uses data from credit bureaus to screen the credit history of potential customers and undertakes an analysis of the past savings of its borrowers, apart from assessing their income, during the credit appraisal process to establish loan eligibility.

Credit challenges

High proportion of NHL book though a portion of the NHL portfolio is for housing – On a standalone basis, the managed portfolio stood at Rs.2,403 crore as of September 2019, with the housing loan (HL) portfolio accounting for 61% of the total portfolio, and the remaining comprising loan against property (LAP) and small and medium enterprise

(SME) loans. The subsidiary' portfolio comprises of only LAP/ SME loans. On a consolidated basis, the HL portfolio constituted about 53% of the managed portfolio of about Rs. 2,739 crore as of September 2019. Within the NHL portfolio (47% of the overall book), about 30% of the NHLs were towards house construction, renovation or purchase, which do not meet the National Housing Bank (NHB) guidelines for classification as HLs. This, to an extent, offsets the risk emerging from the high share of NHLs in the overall portfolio.

Exposure to borrowers with modest credit profiles – Aptus has a relatively high exposure to the self-employed category (76%[2] of the overall portfolio, post revision in the classification norm followed by the company), particularly the low-and middle-income segment. The target customers have limited access to credit from formal channels given the lack of proper income documents. With a high share of first-time borrowers, the target borrower segment is relatively 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, and adequate portfolio tracking systems.

Moderate track record and scale of operations; high envisaged growth rate – Aptus has a moderate track record (in relation to the loan tenor) in the housing finance segment, having commenced operations in FY2010. The company is a regional player with operations limited to the four southern states of TN, Karnataka, Andhra Pradesh and Telangana, and the Union Territory of Puducherry with 166 branches as of September 2019. Of these, TN and Puducherry accounted for 58% of the total portfolio followed by Andhra Pradesh (22%), Telangana and Karnataka (10% each). ICRA notes that TN's share declined to 60% as of March 2019 (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 company would predominantly remain a regional player with focus on the existing states for the medium-term growth of its operations.

Seasoned senior management team; however, keyman risk is a concern – ICRA takes comfort from the experienced management team, however factors in keyman risk associated with the promoter as many key stakeholders draw comfort from his active involvement in the management of the company. His involvement would therefore remain important as the company envisages a high-paced growth over the next three years. The senior management has vast experience in the retail lending business. The board has eight directors including the Chairman and Managing Director, two representatives from private equity investors, three independent directors and two non-executive directors.

Liquidity position: Adequate

Aptus' asset liability maturity (ALM) profile, as of September 2019, reflects no cumulative mismatches in the less-than-one-year bucket. The company had cash and liquid investments of about Rs. 718 crore as of September 2019 (Rs. 107 crore in March 2019) largely because of the equity infusion during the month. Aptus has repayment obligations of about Rs. 110.00 crore over the next six months (October 2019 to March 2020) while its inflow (principal excluding prepayments) from loan collections is expected to be Rs. 61.00 crore (Rs. 151.00 crore including prepayments). The funding profile is characterised by funding from banks (43%), followed by debentures (41%), NHB (11%) and portfolio sell-down (5%) as of September 2019. ICRA notes that the company has largely secured longer-tenor (>5 years) funding in the past, with about 70% of the total borrowings outstanding as on September 30, 2019 having contractual maturity of 7 years and above. Considering its robust growth plans, ICRA expects the company to focus on long-tenor borrowings to keep the asset liability mismatches under control. Also, it is key to diversify funding sources and secure funding at competitive rates.

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[2] *A borrower is classified as salaried if the co-borrower or any member of the household has a salaried income adequate to meet the loan instalment; previously, the classification of salaried or self-employed depended on the borrower's income profile*

Rating sensitivities

Positive triggers – ICRA could revise the outlook to Positive or upgrade the rating if the company is able to sustain a healthy financial performance with RoMA of more than 4.0% and good asset quality (GNPA less than 1.5%) over the next three to five years. Achieving a more diversified funding profile and having minimal asset liability mismatches in the near-term buckets, as the company expands its portfolio over the next three-five years, would also be crucial for a Positive outlook or rating revision.

Negative triggers – Pressure on the rating could arise in case of an increase in the managed gearing beyond 4.5 times, deterioration in the asset quality indicators (GNPA above 2.0%) or earnings profile (RoMA below 3.5%) on a sustained basis or any sizeable weakening in the asset liability maturity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing 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 (Aptus Finance)

About the company

Chennai-based Aptus is a housing finance company (HFC), promoted by Mr. M Anandan and incorporated in December 2009. The company's target borrowers are from the low to middle-income segments, with an average ticket size of about Rs. 8-9 lakh. Its target geographies are the southern states, with a focus on rural and semi-urban areas. Aptus is largely focussed 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 extends mortgage loans to small and medium enterprises. On a standalone basis, Aptus Finance's book size was about Rs. 336 crore as on September 30, 2019.

In FY2019, Aptus (consolidated) reported a net profit of Rs. 111.7 crore on a total managed asset base of Rs. 2,363.1 crore compared with a net profit of Rs. 66.7 crore on a total managed asset base of Rs. 1,465.4 crore in FY2018. In H1 FY2020, the net profit stood at Rs. 81.2 crore (provisional) on a total managed asset base of Rs. 3,443.8 crore.

Key financial indicators

Aptus – Consolidated	Ind-AS FY2018*	Ind-AS FY2019*	Ind-AS H1 FY2020 (P)
Total Income	203.6	338.4	236.9
Profit after Tax	66.7	111.7	81.2
Net Worth	584.9	698.6	1,574.70
Managed Portfolio	1,411.0	2,247.3	2,738.9
Total Managed Assets	1,465.4	2,363.1	3,472.3
Return on Managed Assets	5.8%	5.8%	5.6%
Return on Net Worth	12.1%	17.4%	14.3%
Gearing (times)	1.4	2.3	1.2
Gross NPA%	0.5%	0.4%	0.7%
Net NPA%	0.4%	0.3%	0.5%
CAR%	63.9%	43.6%	83.7%

*Amount in Rs. crore; *Audited; P - Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
						FY2019	FY2018		FY2017
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	18-Nov-19	18-Dec-18	04-Dec-17	13-July-17	14-Mar-17
1	Non-convertible Debentures	Long Term	601.00	601.00	[ICRA]A+ (Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	-	-
2	Fund-based Term Loan	Long Term	569.26	569.26	[ICRA]A+ (Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Positive)
3	Long Term - Unallocated	Long Term	1,035.74	1,035.74	[ICRA]A+ (Stable)	-	-	-	-
4	Fund-based Cash Credit	Long Term	5.00	5.00	[ICRA]A+ (Stable)	[ICRA]A(Stable)	-	-	-
5	Short-term Debt	Short Term	0.00	0.00	[ICRA]A1; withdrawn	[ICRA]A1	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE852O07048	NCD	26-Dec-17	10.00%	26-Dec-24	80.00	[ICRA]A+(Stable)
INE852O07055	NCD	25-Jan-18	10.00%	24-Jan-25	80.00	[ICRA]A+(Stable)
INE852O07063	NCD	26-Feb-18	10.00%	26-Feb-25	40.00	[ICRA]A+(Stable)
INE852O07071	NCD	20-Jun-18	10.00%	20-Jun-25	50.00	[ICRA]A+(Stable)
INE852O07089	NCD	20-Jul-18	10.00%	20-Jul-25	125.00	[ICRA]A+(Stable)
INE852O07097	NCD	20-Aug-18	10.00%	20-Aug-25	125.00	[ICRA]A+(Stable)
INE852O07105	NCD	08-Jan-19	NA	03-Nov-25	101.00	[ICRA]A+(Stable)
-	Term loan 1	Jul-17	NA	Jul-24	29.01	[ICRA]A+(Stable)
-	Term loan 2	Dec-17	NA	Dec-24	75.00	[ICRA]A+(Stable)
-	Term loan 3	Jul-17	NA	Jul-24	35.71	[ICRA]A+(Stable)
-	Term loan 4	Apr-18	NA	Apr-25	47.86	[ICRA]A+(Stable)
-	Term loan 5	Mar-19	NA	Mar-24	45.78	[ICRA]A+(Stable)
-	Term loan 6	May-18	NA	May-25	42.86	[ICRA]A+(Stable)
-	Term loan 7	Mar-19	NA	Mar-24	13.50	[ICRA]A+(Stable)
-	Term loan 8	Dec-18	NA	Dec-25	47.47	[ICRA]A+(Stable)
-	Term loan 9	Dec-18	NA	Dec-24	30.00	[ICRA]A+(Stable)
-	Term loan 10	Dec-18	NA	Mar-24	48.61	[ICRA]A+(Stable)
-	Term loan 11	Mar-19	NA	Mar-26	28.46	[ICRA]A+(Stable)
-	Term loan 12	Mar-19	NA	Sep-24	30.00	[ICRA]A+(Stable)
-	Term loan 13	Jun-19	NA	Jun-24	95.00	[ICRA]A+(Stable)
-	Cash credit	NA	NA	NA	5.00	[ICRA]A+(Stable)
-	Term loan - proposed	NA	NA	NA	1035.74	[ICRA]A+(Stable)

Source: Aptus

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Aptus Finance India Private Limited	100.00%	Full Consolidation

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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.

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