Aptus Value Housing Finance India Limited

June 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	41.25	CARE AA-; Stable	Assigned
Long-term bank facilities	958.75 (Reduced from 1,000.00)	CARE AA-; Stable	Reaffirmed
Non-convertible debentures-II (Proposed)	100.00	CARE AA-; Stable	Assigned
Non-convertible debentures-I	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has taken a combined approach of Aptus Value Housing Finance India Limited (Aptus) and Aptus Finance India Private Limited (AFIPL). The ratings continue to derive strength from the established track record of Aptus in affordable housing finance segment, its healthy profitability, healthy capital adequacy levels, good asset quality parameters supported by well-managed in-house appraisal, origination and collection team and good management information system (MIS). The ratings also take note of the improvement in the scale of operations with assets under management (AUM) growing from ₹5,180 crore as on March 31, 2022 to ₹6,738 crore as on March 31, 2023. The ratings are, however, constrained by moderate seasoning, geographical concentration of its portfolio which has seen gradual improvement, moderately diversified resource profile and inherent risks associated with its borrower profile mostly being self-employed in the informal segment.

CARE Ratings has withdrawn the rating assigned to the non-convertible debenture (NCD) issue-I of Aptus with immediate effect, as the company has repaid the aforementioned NCD in full and there is no amount outstanding under the said issue.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could, individually or collectively lead to positive rating action/upgrade:

- Improvement in geographical diversification with substantial increase in the scale of operations while maintaining profitability and asset quality parameters at comfortable levels.
- Diversify funding profile to support the growing scale of operations.

Negative factors – Factors that could individually or collectively, lead to negative rating action/downgrade:

- Weakening of asset quality parameters with gross non-performing assets (GNPA) of above 3% on a sustained basis.
- Decline in profitability, with return on total assets (ROTA) falling below 3% on a sustained basis.

Analytical approach:

CARE Ratings has taken a combined approach of Aptus and AFIPL, as AFIPL is a 100% subsidiary of Aptus and both the companies are integrated in terms of operations with common brand name, infrastructure and resources. In addition, funding support is received by AFIPL from Aptus.

Outlook: Stable

CARE Ratings believes that the entity shall sustain its healthy profitability and capital adequacy while maintaining asset quality over the medium term.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Established track record of Aptus in affordable housing segment: Aptus was promoted in 2010 by M. Anandan, who is the Executive Chairman of the company. He has experience of more than four decades in the financial services industry and has held various positions in the companies under the Murugappa group. He was Executive Director (1997-2000), Managing Director (2000 - 2006) of Cholamandalam Investments and Finance Ltd, and Managing Director (2006-2008) of Cholamandalam MS General Insurance Company Ltd. He was also the CEO / Director of the Financial Services Businesses in the Murugappa Group. He has also held directorship position in some of the south India-based non-banking financial companies (NBFCs). He has served as the Managing Director of Aptus since its incorporation in 2010 till 2023. At present, he continues as the Executive Chairman of the company. During Q1FY24, the company has seen major top-level changes, wherein P Balaji who was earlier the Executive director and Chief financial officer of the company has been appointed as Managing Director. The company has appointed the CRO (Chief Risk Officer) as the CFO of the company and is in the process of appointing a new CRO. Aptus has 10 directors with extensive experience in the financial services. Going forward with improvement in the scale of operations and planned expansion into other regions, improving breadth of management in key functional areas is critical. Aptus has been operating in the same product segment since inception and has track record of more than a decade in the segment.

Well-managed in-house appraisal, origination and collection team along with good MIS system: The core strength of Aptus is its in-house team covering all the facets starting from business sourcing, recovery and collection, technical and legal teams. Aptus follows a hub and spoke model where the hubs have technical and legal teams for all branches under the respective hubs. Aptus has a centralised credit-appraisal and monitoring system. Apart from sourcing and collections, all activities are centralised. The selection of the customers runs through several levels of checks, including KYC norms, risk assessment, personal discussion and verification of the business and bank statements and references from existing customers. Then, the technical team consisting of the civil engineers and the legal team verifies the quality of the asset that is given as collateral. Aptus uses an end to end software for its loan origination, loan management, delinquency management, accounting, and MIS. As part of the collection process, every month the customers are initially intimated by way of an automatic SMS before the due-dates. In case of delay in repayments, the collection team follows up and meets the customers directly to collect the outstanding dues. The appraisal and origination systems are adequate to assess borrower credit profiles.

Growing scale of operations: The AUM (Consolidated) of Aptus grew at a compounded annual growth rate (CAGR) of 32% over the last 4 years (from March 31, 2019 to March 31, 2023) and stood at ₹6,738 crore as on March 31, 2023. Consolidated AUM grew by 30% in FY23 on a y-o-y basis (PY: 26%). AVHFIL has relatively moderate market position in the affordable housing segment. As the company is in the process of expanding into new regions, the same is expected to improve going forward. On a standalone basis, AUM of Aptus stood at ₹5,761 crore (which had a portfolio mix of 69% of housing loans and 31% of non-housing loans) as on March 31, 2023, while AUM of AFIPL stood at ₹977 crore. The company has a comfortable tangible net worth (TNW) of ₹3,319 crore as on March 31, 2023. CARE Ratings expects the company to report good loan book growth while maintaining health capitalisation in the medium term.

Healthy profitability indicators supported by mix of housing and non-housing loans: Profitability indicators of Aptus (consolidated) continue to remain healthy. Aptus reported profit after tax (PAT) of ₹503 crore on a total income of ₹1,129 crore in FY23 as against PAT of ₹370 crore on a total income of ₹840 crore in FY22. The net interest margin (NIM) improved from 11.46% in FY22 to 12.21% in FY23 with improvement in yield on advances. Opex (as a percentage of total assets) increased from 2.29% in FY22 to 2.58% in FY23 due to addition of branches. PPOP increased from ₹514 crore in FY22 to ₹688 crore in FY23. Credit cost remained low at 0.53% in FY23 as against 0.68% in FY22. With improvement in NIM and credit cost, ROTA improved to 7.85% in FY23 from 7.28% in FY22. CARE Ratings expects profitability to remain healthy in the medium term supported by healthy NIM and lower credit cost. On a consolidated basis, housing loans stood at 59%, whereas the non-housing loans stood at 41% of loan book.

Healthy capital adequacy levels: Aptus has seen continuous equity infusion over the past from private equity investors, which helped the company to maintain comfortable capital adequacy levels. The company had come up with an initial public offering (IPO) during August 2021 through which it raised ₹500 crore. The company got listed on August 24, 2021. Shareholding of the promoter group stood at 59.50% as on March 31, 2023, with 34.48% held by WestBridge CrossOver Fund LLC and around 25.02% held by the founder promoter, M Anandan and immediate relatives. The capital adequacy ratio (CAR) and Tier-1 CAR of Aptus stood at healthy level of 77.39% and 76.60%, respectively, as on March 31, 2023 as against 86.25% and 86.11%, respectively, as on March 31, 2022. The TNW and gearing stood at ₹3,319 crore and 1.14x as on March 31, 2023, on a consolidated basis. CARE Ratings expects the capitalisation levels to remain healthy over the medium term. The present level of net worth along with retained profits will enable the company to grow its AUM for the next three to five years without any further equity infusion.

Good asset quality indicators: The (consolidated) GNPA of Aptus stood at 1.15% (PY: 1.19%), while its NNPA stood at 0.86% (PY: 0.85%) as on March 31, 2023. Aptus has been able to maintain healthy asset quality over the years, primarily on account of efficient collection mechanism and conservative credit policy. Aptus extends loans with loan-to-value (LTV) of upto 50%, which provides considerable margin of safety, in case of any delinquencies. As on March 31, 2023, around 87% of the loan portfolio remains below loan-to-value (LTV) of 50%. Delinquencies in softer buckets have improved during FY23, but still remains high in comparison to pre-COVID-19 levels. 0+ DPD and 30+ DPD, which stood at 11.5% and 9.91% as on March 31, 2022 improved to 10.47% and 5.90% as on March 31, 2023. Although the company has so far demonstrated strong ability to recover its over-dues, maintaining asset quality performance as the company grows further will be critical.

Key weaknesses

Moderate portfolio seasoning: The company has demonstrated its ability to grow the loan book while maintaining strong credit metrics. Going forward, growth in the loan book with stable credit metrics will be key monitorable considering 41% of its loan book (on consolidated basis) is non-housing loans which includes quasi home loans constituting 17.56% of its loan book (on consolidated basis). Reportedly, non-housing loans in the books of Aptus consist of loans extended to the borrowers towards reimbursement of money spent on construction of house (namely, Quasi Home Loans-QHL). However, loans in the book of its subsidiary, AFIPL, consist of loans given to the borrowers in the small and medium-sized enterprises (SME) segment against mortgage. The loan portfolio of Aptus is less seasoned as majority of the portfolio was originated during the last five years, ended March 2023 as against the tenure of the majority loans which are in the range of 5-15 years.

Geographical concentration of loan portfolio which has seen gradual improvement: Aptus has presence in the states of Tamil Nadu, Karnataka, Telangana, Andhra Pradesh and Odisha along with the union territory of Puducherry with a total of 231 branches as on March 31, 2023. The portfolio of Aptus continues to be concentrated in Tamil Nadu. However, the concentration in Tamil Nadu has declined from 48% of the portfolio as on March 31, 2022 to 43% of the total portfolio as on March 31, 2023. On the other hand, share of AP has increased from 31% as on March 31, 2022 to 35% as on March 31, 2023. The proportion of top three states remained high at 92% of AUM as on March 31, 2023 as against 91% as on March 31, 2022. The company is planning to expand to Maharashtra on pilot basis during FY24. However, the business of Aptus is expected to remain focused on the southern states (Tamil Nadu, Andhra Pradesh, Telangana and Karnataka) in the medium term as it plans to further deepen its presence in these states. The ability of the company to manage growing size of operations and operational efficiencies as it opens new branches to grow the portfolio remains critical.

Exposure to the underbanked segment of borrowers: Aptus is primarily lending towards the housing finance needs of the self-employed customers in the informal low and middle-income segment who are not serviced by the banking sector. Since this segment is highly susceptible to the impact of economic downturn, maintaining good asset quality while increasing the scale of operations is a key sensitivity. Also, given the access to the SARFAESI Act, the company has the ability to initiate and undertake effective recoveries in case of any delinquencies.

Moderately diversified resource profile: Aptus funding profile is moderately diversified with borrowings from banks, NCDs and NHB constituting 60%, 11%, 29%, respectively, as on March 31, 2023 (PY: 51%, 33%, 15% respectively). The borrowings from banks consist of borrowings from large public sector (24%) and private sector banks (76%).

Liquidity: Adequate

The liquidity profile of Aptus remained adequate with no negative cumulative mismatch in time buckets upto 1 year as per the asset-liability maturity (ALM) as on March 31, 2023. Given the cash balances, liquid investments and the monthly repayments on the loan portfolio, liquidity remains adequate for Aptus. As on March 31, 2023, Aptus (consolidated) had cash and liquid assets amounting to ₹460 crore.

Applicable criteria

Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios-Financial Sector
Rating Methodology for Housing Finance Companies (HFCs)
Rating Methodology for Non-Banking Finance Companies (NBFCs)
Rating Methodology: Consolidation
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Housing Finance Company

Aptus Value Housing Finance India Limited (Aptus) is a housing finance company which was incorporated on December 11, 2009. As on March 31, 2023, M. Anandan and immediate relatives hold 25.02% stake, West Bridge Crossover Fund LLC holds 34.48% of the stake, Malabar Funds hold 8.42% stake, Steadview Capital Mauritius Limited holds 3.19% stake, remaining 18.19% stake is held by other investors, and 10.70% is held by public. The company went public on August 24, 2021.

Aptus Finance India Private Limited (NBFC) is a wholly-owned subsidiary of Aptus. Both the companies have same customer base and management and share a common brand name. Loan reported under AFIPL are SME (LAP loans), whereas the SME loans reported under the Aptus are quasi home loans.

Aptus is essentially catering to the housing finance needs of self-employed, informal segment of customers mostly belonging to middle/low income group, primarily from semi-urban and rural markets. The non-housing loan portfolio is constituted by SME business loans and LAP – Construction and Purchase loan (C&P). Aptus (consolidated) had an AUM of ₹6,738 crore as on March 31, 2023, of which housing segment constituted 59% with the rest being non-housing portfolio. The IRR for housing loans is generally 14%-15%, while that of the non-housing loan is upto 21%. The company extends housing loans with between ₹5 and ₹20 lakh. The company is one of the early private sector entrants in south India catering to the affordable housing segment. As on March 31, 2023, Aptus had 231 branches in the states of Tamil Nadu, Karnataka, Telangana, Andhra Pradesh and Odisha.

Brief Financials (₹ crore) (Consolidated)	FY21 (A)	FY22 (A)	FY23(A)
Total income	655	840	1,129
PAT	267	370	503
Interest coverage (times)	2.67	3.29	3.36
Total assets	4,503	5,661	7,156
Net NPA (%)	0.40	0.85	0.86
ROTA (%)	6.48	7.28	7.85

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures-I	INE852007014	27-Jul-2016	10.00	15th May 2023	0.00	Withdrawn
Debentures-Non Convertible Debentures-I	INE852007022	08-Feb-2017	9.35	15th May 2023	0.00	Withdrawn
Debentures-Non Convertible Debentures-I	INE852007030	18-May-2017	9.85	15th May 2023	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	Feb 2028	958.75	CARE AA-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	30.00	CARE AA-; Stable
Non-fund-based - LT-Bank Guarantee	-	-	-	-	11.25	CARE AA-; Stable
Debentures-Non Convertible Debentures-II(Proposed)	-	-	-	-	100.00	CARE AA-; Stable

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	958.75	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Jun-22)	1)CARE A+; Positive (03-Dec-21)	1)CARE A+; Stable (04-Dec-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (04-Dec-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA-; Stable (30-Jun-22)	1)CARE A+; Positive (03-Dec-21)	1)CARE A+; Stable (04-Dec-20)
4	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Stable				
5	Non-fund-based - LT-Bank Guarantee	LT	11.25	CARE AA-; Stable				
6	Fund-based - LT-Working Capital Limits	LT	30.00	CARE AA-; Stable				

*Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	Simple
4	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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