Aptus Value Housing Finance India Limited

June 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,000.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Positive (Single A Plus; Outlook: Positive)
Total bank facilities	**1,000.00 (₹ One thousand crore only)**		
Non-convertible debentures - I	99.70	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Positive (Single A Plus; Outlook: Positive)
Total long-term instruments	**99.70 (₹ Ninety nine crore and seventy lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has taken a consolidated approach of Aptus Value Housing Finance India Limited (Aptus) and Aptus Finance India Private Limited (AFIPL). The revision in the ratings assigned to the bank facilities and debt instruments of Aptus factors in the consistent financial performance along with improvement in the scale of operations while maintaining healthy capitalisation levels and good asset quality. The scale of operations improved with assets under management (AUM) growing from ₹2,247 crore as on March 31, 2019 to ₹5,180 crore as on March 31, 2022, supported by strong tangible net worth of ₹2,893 crore as on March 31, 2022.

Gross non-performing asset (GNPA) and net NPA (NNPA) on a consolidated basis (including the impact of new Income Recognition, Asset Classification and Provisioning [IRACP] norms as per the Reserve Bank of India (RBI) circular dated November 12, 2021) stood at 1.19% and 0.85%, respectively, as on March 31, 2022, as against 0.66% and 0.40% as on March 31, 2021. There has been increase in overall softer delinquencies post COVID-19, however, same has seen improvement in H2FY22 (refers to the period October 01 to March 31).

The ratings continue to derive strength from the experienced promoter and senior management team, 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 are, however, constrained by limited but improving seasoning and geographical concentration of its portfolio which has seen gradual improvement in the last three years with share of Tamil Nadu coming down from 60% as on March 31, 2019 to 48% as on March 31, 2022 and inherent risks associated with its borrower profile mostly being self-employed in the informal segment.

Rating sensitivities

Positive factors – Factors that could 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 lead to negative rating action/downgrade:

- Weakening of asset quality parameters with GNPA of above 3% on a sustained basis.
- Weakening of capital adequacy levels with capital adequacy ratio (CAR) falling below 20% on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoter and senior management: Aptus was promoted by M. Anandan, who is the Chairman and Managing Director of the company. M. Anandan has experience of more than four decades in the financial services industry and has held various positions in the companies under the Murugappa group. M Anandan was Executive Director (1997-2000), Managing Director (2000 - 2006) of Cholamandalam Investments and Finance Ltd. He was 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). Aptus has 10 directors with extensive experience in the financial services. M. Anandan is assisted by an experienced management team. P Balaji, Executive Director & Chief Financial Officer, handles Finance, treasury, Internal audit, compliance and Admin, while Subramaniam G, the Executive Director & Chief – Business and Risk handles the operations, credit, legal and recovery. 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.

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

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 SVS 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 with reduction in geographical concentration: The AUM (consolidated) of Aptus has grown at a compounded annual growth rate (CAGR) of 32% in the last three-year period (from March 31, 2019 to March 31, 2022) and stood at ₹5,180 crore as on March 31, 2022. On a y-o-y basis, consolidated AUM has grown by 26% in FY22 (PY: 29%; refers to the period April 1 to March 31). On a standalone basis, AUM of Aptus stood at ₹4,492 crore (which had a portfolio mix of 64% of housing loans and 36% of non-housing loans), while AUM of AFIPL stood at ₹688 crore. Self-employed segment constituted around 71% of the total portfolio (Consol) as on March 31, 2022. Supported by strong tangible net worth of ₹2,893 crore as on March 31, 2022, and plans to deepen its penetration in the existing markets, the company is expected to report good loan book growth while maintaining healthy capitalisation in the immediate to near term.
Currently, Aptus has presence in the states of Tamil Nadu, Karnataka, Telangana, Andhra Pradesh and Odisha with a total of 208 branches. The portfolio of Aptus continues to be concentrated in Tamil Nadu. However, the concentration in Tamil Nadu has declined from 52% of the portfolio as on March 31, 2021 to 48% of the total portfolio as on March 31, 2022. On the other hand, share of AP has increased from 28% as on March 31, 2021 to 31% as on March 31, 2022. The company is planning to expand to Maharashtra and Chattisgarh on pilot basis during FY23. However, Aptus's business 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.

Healthy profitability indicators supported by mix of housing and non-housing loans: Profitability indicators of Aptus (consolidated) continues to remain healthy. Aptus extends housing loans at rate of interest (ROI) of 13.50% to 15.00% and non-housing loans at ROI of 17.00% to 21.00%. The same results in relatively higher profitability. NIM improved to 11.46% in FY22 (PY: 10.13%) with improvement in the capital structure. The company has been deriving scale benefits supported by the growing scale of operations which is reflected in the improvement in opex/avg.assets. Opex/avg.assets improved from 2.37% in FY21 to 2.29% in FY22. The credit cost (as a percentage of average total assets) slightly increased but remained low at 0.68% for FY22 (0.14% for FY21). The return on total assets (ROTA) stood at 7.28% for FY22 (PY: 6.48%). Aptus (Consolidated) has reported profit after tax (PAT) of ₹370 crore (PY: ₹267 crore) in FY22.
On a consolidated basis, housing loans stood at 56%, whereas the non-housing loans stood at 44%.

Healthy capital adequacy levels: Aptus has seen continuous equity infusion over the past few years from private equity investors which helped the company to maintain comfortable capital adequacy levels. Aptus had come up with an initial public offering (IPO) during August 2021 with primary issuance of ₹500 crore and offer for sale of ₹2,280 crore. The issue was subscribed by 17.20x and the company got listed on August 24, 2021. Shareholding of the promoter group stood at 59.63% as on March 31, 2022, with 34.56% held by WestBridge CrossOver Fund LLC and around 25.07% held by founder promoter, M Anandan and immediate relatives.
The CAR of Aptus stood at healthy level of 86.25% as on March 31, 2022 as against 73.63% as on March 31, 2021. Tangible net worth and gearing stood at ₹2,893 crore and 0.94x as on March 31, 2022 on a consolidated basis. The present level of networth will enable the company to grow its AUM for the next three to five years without any further equity infusion.

Key rating weaknesses

Limited portfolio seasoning, however, asset quality continues to be good: The company has demonstrated its ability to grow the loan book while maintaining the strong credit metrics with AUM growing from ₹2,247 crore as on March 31, 2018 to ₹5,180 crore as on March 31, 2022. Supported by strong networth and plans to deepen its penetration in existing markets, the company is expected to report good loan book growth while maintaining healthy capitalisation in the immediate to medium term. Going forward, growth in loan book with stable credit metrics will be key monitorable considering 44% of its loan book (on consolidated basis) is non-housing loans which includes quasi home loans constituting 15% of its loan book (on consolidated basis). Reportedly, non-housing loans in the books of Aptus consists of loans extended to the borrowers towards reimbursement of money spent on construction of house (namely, Quasi Home Loans-QHL). Whereas loans in the book of its subsidiary, AFIPL consists of loans given to borrowers in the small and medium-sized enterprises (SME) segment against mortgage.
The loan portfolio of Aptus is less seasoned as the company commenced its operations in August 2010 and hence has limited track record of operations with limited seasoning of the loan portfolio as majority of the portfolio was originated during the last four years ended March 2022.
Aptus (consolidated) GNPA stood at 1.19% (PY: 0.66%) and NNPA stood at 0.85% (PY: 0.40%) as on March 31, 2022. 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 average loan-to-value (LTV) in the range of 25%-50%, which provides considerable margin

of safety, in case of any delinquencies. As on March 31, 2022, around 87% of the loan portfolio remains below LTV of 50%. Delinquency level of Aptus in softer buckets has remained relatively low in the range of around 2% to 5% in the three-year period ended March 31, 2020. Though delinquencies witnessed increase post second wave of COVID-19 in the quarter ended June 2021, same has witnessed improvement by the end of March 2022 demonstrating the company's ability to contain further slippages from softer buckets to harder buckets. 0+ DPD, which stood at 5.1% as on March 31, 2020, increased to 20.0% as on March 31, 2021 and further increased to 24.1% as on June 30, 2021. However, with increased efforts on collection, 0+ DPD improved to 11.5% as on March 31, 2022. Although the company has so far demonstrated strong ability to recover its over-dues, asset quality performance through different economic cycles and geographies is yet to be established.

Exposure to the under-banked 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, NHB and securitisation constituting 50%, 14%, 32% and 4%, respectively, as on March 31, 2022 (PY: 56%, 17%, 23% and 4%, respectively). The borrowings from banks mainly consist of borrowings from large public sector (26%) and private sector banks (74%).

Industry outlook
The asset quality for the affordable HFCs (ticket size less than ₹15 lakh (L)) remains weaker than prime lenders mainly due to the relatively less affluent nature of borrowers. The customers in this segment are more susceptible to economic downturns with their income being closely linked to economic performance. Furthermore, around 15% customers are new to credit vs 6%-7% customers being new to credit in prime housing. First-time home loan consumers account for around 60% of housing loan disbursements in the case of affordable home loans which is much higher than their share of around 45% in housing loan disbursements above ₹15 lakh ticket size.
Affordable HFCs have grown at a CAGR of 40% over FY18-FY20. Consequently, the lower Gross Stage 3 (GS3) ratios could be partially attributed to lower seasoning of the loan portfolios. GS3 ratio has seen an uptick over FY22. While the top three to four affordable HFCs have seen relatively lower slippages, the relatively smaller players have seen a sharp increase reflecting their exposure towards the vulnerable borrower class, especially the self-employed segment.
The overall recovery in the economy will likely lead to credit costs going forward. The segment is estimated to clock better growth rate in FY23. The sector remains supported by the extension of the SARFAESI Act, 2002, to loans greater than ₹1 lakh ticket size, minimal exposure to LAP and developer finance and ample capital headroom.

Liquidity: Adequate
The liquidity profile of Aptus remained adequate with no negative cumulative mismatch in any of the time buckets. Given the cash balances, liquid investments and the monthly repayments on the loan portfolio, liquidity remains adequate for Aptus. As on March 31, 2022, Aptus had cash and liquid assets amounting to ₹548 crore.

Analytical approach:
CARE Ratings has taken a consolidated 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.

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

About the company
Aptus Value Housing Finance India Limited (Aptus), a housing finance company, which was incorporated on December 11, 2009. As on September 30, 2021, the promoters held 25.14% stake, West Bridge Crossover Fund LLC (34.65%), JIH II LIC (2.72%), Malabar India Fund Limited (4.02%), Malabar Select Fund Limited (3.72%), Steadview Capital Mauritius Limited (3.25%) and remaining 11.14% stake is held by other investors and 15.35% is held by public. The company went public on August 24, 2021.
Aptus Finance India Private Limited is a wholly-owned subsidiary of Aptus Value Housing Finance. Both the companies have same customer base and management and share a common brand name.
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. Aptus had an AUM (consolidated) of ₹4,104 crore as on March 31, 2021, of which housing segment constituted 54% 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 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 September 30, 2021, Aptus had 198 branches in the states of Tamil Nadu, Karnataka, Telangana and Andhra Pradesh.

Brief Financials (₹ crore) (Consolidated)	**FY21 (A)**	**FY22 (A)**	**Q1/H1/9M**
Total income	655	840	NA
PAT	267	370	NA
Interest coverage (times)	2.67	3.29	NA
Total assets	4,503	5,661	NA
Net NPA (%)	0.40	0.85	NA
ROTA (%)	6.48	7.28	NA

A: Audited

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

Complexity level of various instruments rated for this company: Annexure-4

Bank lender details for this company: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	July 2027	1000.00	CARE AA-; Stable
Debentures-Non-convertible debentures - I	INE852O07014	July 27, 2016	10.00%	May 15, 2023	33.20	CARE AA-; Stable
Debentures-Non-convertible debentures – I	INE852O07022	Feb 08, 2017	9.35%	May 15, 2023	33.20	CARE AA-; Stable
Debentures-Non-convertible debentures - I	INE852O07030	May 18, 2017	9.85%	May 15, 2023	33.30	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	1000.00	CARE AA-; Stable	-	1)CARE A+; Positive (03-Dec-21)	1)CARE A+; Stable (04-Dec-20)	1)CARE A+; Stable (06-Dec-19) 2)CARE A; Stable (05-Jul-19)
2	Fund-based - LT-Cash credit	LT	-	-	-	-	1)Withdrawn (04-Dec-20)	1)CARE A+; Stable (06-Dec-19) 2)CARE A; Stable (05-Jul-19)
3	Debentures-Non-convertible debentures	LT	99.70	CARE AA-; Stable	-	1)CARE A+; Positive (03-Dec-21)	1)CARE A+; Stable (04-Dec-20)	1)CARE A+; Stable (06-Dec-19) 2)CARE A; Stable (05-Jul-19)

* Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
Debentures-Non-convertible debentures	Risk weighted capital adequacy not less than 15%
	Debt to equity ratio not above 6x

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Fund-based - LT-Term loan	Simple

Annexure-5: Bank lender details for this company

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:
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