Aptus Finance India Private Limited

September 02, 2020

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Non-Convertible Debenture Issue (Proposed)	25.0 (Rs. Twenty Five crore only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed non-convertible debenture issue of Aptus Finance India Private Limited (AFIPL) derives strength from high level of integration with its parent Aptus Value Housing Finance India Limited (AVHFIL) in terms of branch network, operational, managerial and financial functions. AVHFIL continues to derive strength from experienced promoter and senior management team, financial risk profile marked by healthy profitability and healthy capital adequacy levels, good asset quality parameters supported by well-managed in-house appraisal, origination & collection team and good MIS system. The rating also factors in the improvement in the scale of operations during FY20 (refers to the period April 1 to March 31).

The rating is constrained by the company's limited seasoning & geographical concentration of its portfolio and inherent risks associated with its borrower profile mostly being self-employed in the informal segment.

Rating Sensitivities

Positive Factors

- Improvement in geographical diversification while increasing the scale of operations
- Diversify funding profile to support the growing scale of operations

Negative Factors

- Weakening of asset quality indicators
- Weakening of capital adequacy levels

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and senior management

AVHFIL was promoted by Mr M. Anandan, who is the Chairman and Managing Director of the company. Mr Anandan has an overall experience of more than 30 years in financial services industry and has held various positions in the companies under the Murugappa group. Mr M Anandan was the first non-promoter Managing Director of Cholamandalam Investment and Finance Company Limited (Chola) during the period 2000-06. During this period, he was also the Chief Executive Officer of the Financial Services Business in the Murugappa group. He was the Managing Director of Cholamandalam MS General Insurance Company during 2006-08. He has also held directorship position in some of the south India-based NBFCs. AVHFIL has 9 directors with extensive experience in financial services. Mr Anandan is assisted by an experienced management team. Mr P Balaji, Executive Director & Chief Financial Officer, handles Treasury, Finance and Accounting functions and Mr Subramaniam G, is the Executive Director & Chief - Risk and Operations.

Consistent growth in the scale of operations with improvement in profitability indicators

Consolidated AUM has increased by 42% in FY20 (PY: 60%) to Rs.3,183 crore as on March 31, 2020 from Rs.2,247 crore as on March 31, 2019. AUM further increased to Rs.3,308 crore as on June 30, 2020. As on March 31, 2020, AUM of AVHFIL stood Rs.2,747 crore (which had a portfolio mix of 61% of Housing Loans and 39% of Non-Housing loans), while AUM of AFIPL stood at Rs.437 crore. Self-employed segment constituted around 75% of the total portfolio as on March 31, 2020.

The profitability indicators of AVHFIL (Consolidated) have been healthy with a PAT at Rs.211 crore for FY20 (PY: Rs.112 crore). The operating expenses (as a percentage of average total assets) of AVHFIL stood at 2.9% in FY20 (PY: 3.6%) as the company has been deriving scale benefits supported by the growing scale of operations. The credit costs (as a percentage of total assets) stood low at 0.1% for FY20 (0.1% for FY19). ROTA improved to 7.0% for FY20 (PY: 5.9%). AVHFIL (Consolidated) reported a PAT of Rs.56 crore on a total income of Rs.147 crore during Q1FY21.

Growing scale of operations with improvement in geographical concentration

The AUM (consolidated) of AVHFIL has grown at a CAGR of 56% in the last 3-year period (from March 31, 2017 to March 31, 2020) and stood at Rs.3,183 crore as on March 31, 2020. Currently, AVHFIL has presence in the states of Tamil Nadu, Karnataka, Telangana and Andhra Pradesh with a total of 175 branches. AVHFIL's portfolio continues to be concentrated in Tamil Nadu.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

However, the concentration in Tamil Nadu has declined from 60% of the portfolio as on March 31, 2019 to 55% of total portfolio as on March 31, 2020 . On the other hand, share of AP has increased from 21% as on March 31, 2019 to 25% as on March 31, 2020. However, AVHFIL's business is expected to remain focused on the southern states (TN, Andhra Pradesh, Telangana and Karnataka) going forward in the medium term. The ability of the company to manage growing scale of operations and operational efficiencies as it opens new branches/ enters new geographies to grow the portfolio remains critical for its growth prospects.

Well managed in-house Appraisal, origination and collection team along with good MIS system

Core strength of AVHFIL is its in-house team covering all the facets starting from business sourcing, recovery and collection, technical and legal teams. AVHFIL follows a hub and spoke model where the hubs have technical and legal teams for all branches under the respective hubs. AVHFIL 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. AVHFIL 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.

Good asset quality, however limited portfolio seasoning

AVHFIL (consolidated) gross NPA stood at 0.70% as on March 31, 2020 (PY: 0.40%) and the NNPA stood at 0.56% as on March 31, 2020 (PY: 0.32%). AVHFIL has been able to maintain healthy asset quality over the years, primarily on account of efficient collection mechanism and conservative credit policy. AVHFIL provides loans with average LTV in the range of 25%-50% which gives them considerable margin of safety, in case of any delinquencies. As on March 31, 2020, around 86% of the loan portfolio was below the LTV of 50% bucket. However, the loan portfolio of AVHFIL 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 five years ended March 2020. 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.

Comfortable capital adequacy and low overall gearing

AVHFIL has seen continuous equity infusion over the past few years from private equity investors. The CAR has increased from 43.6% as on March 31, 2019 to 82.5% as on March 31, 2020, as the company has raised equity of Rs.800 crore during FY20 from its existing investors- WestBridge Capital and Malabar Investments and New investors- Steadview Capital and Sequoia Capital. The networth and gearing of AVHFIL stood at Rs.1,696 crore and 1.19 times as on March 31, 2020 as against Rs.698 crore and 2.29 times as on March 31, 2019.

Key Rating Weaknesses

Exposure to the under-banked segment of borrowers

AVHFIL 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

AHFIPL funding profile is moderately diversified with borrowings from banks, NCDs, NHB and securitisation constituting 49%, 32%, 14% and 5%, respectively, as on March 31, 2020 (PY: 43%, 44%, 9% and 4%, respectively).

Liquidity: Adequate

The company's asset liability maturity (ALM) profile as on June 30, 2020 reflects no cumulative negative mismatches in all the timeline buckets upto 10 years. The company has cash and liquid investments of about Rs.464 crore as on June 30, 2020 and sanctioned unavailed bank lines of about Rs.270 crore as on June 30, 2020. The company has not availed moratorium from its lenders.

Analytical Approach: CARE has taken a consolidated approach of AVHFIL and AFPL as AFPL is a 100% subsidiary of AVHFIL and both the companies are integrated in terms of operations with common brand name, infrastructure and resources. In addition, funding support is received by AFPL from AVHFIL.

Applicable Criteria
[Criteria on assigning Rating 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- Non Banking Finance Companies]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]

About the Company
Aptus Finance India Private Ltd (AFIPL) is registered as a Loan Company which received its Certificate of Registration in December 2016 and commenced its operations since June 2017. AFIPL lends SME/LAP loans. The company extends Non housing loans with average ticket size of around Rs.8 lakh and tenor less than 10 years at a rate of interest of around 18% - 21%. AFIPL is a fully owned subsidiary of AVHFIL which holds 100% shareholding in AFIPL. The company shares common brand image and branch network with AVHFIL.
Aptus Value Housing Finance India Limited (AVHFIL) is a housing finance company registered with National Housing Bank (NHB). The company was incorporated on December 11, 2009. As on March 31, 2020, the promoter and his relatives held 26.52% stake, West Bridge Capital (35.83%), JIH II (held 8.63%), Aravalli Investment Holdings (4.12%), Granite Hill India Opportunities Fund Mauritius (2.09%), Madison India Opportunities Fund (3.67%), Steadview Capital Mauritius Fund (3.36%), Malabar India Fund Limited (3.85%), Malabar Select Fund Limited (3.85%), Malabar Value Fund (0.64%), SCI Investment VI (3.33%) and remaining 4.11% stake is held by other investors. AVHFIL is essentially catering to the housing finance needs of self-employed, informal segment of customers, belonging to middle/low-income group, primarily from semi-urban and rural markets. The non-housing loan portfolio is constituted by SME (Small & Medium Enterprises) business loans. The average tenure of housing loan is 15 years and non-housing loan is 8 years. The average ticket size is Rs.8 lakh. AVHFIL had an AUM of Rs.3,183 crore as on March 31, 2020, of which housing segment constituted 53% with the rest being non-housing portfolio. The IRR for housing loans is generally 14%-15.5%, while that of the non-housing loan is 18.0%-21.0%. The company extends housing loans with between Rs.5 lakh and Rs.25 lakh. The company is one of the early private sector entrants in South India catering to the affordable housing segment. As on March 2020, AVHFIL has 175 branches in the states of Tamil Nadu, Karnataka, Telangana and Andhra Pradesh.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income (Interest Income)	337	523
PAT	112	211
Interest coverage (times)	2.32	2.34
Total Assets*	2,320	3,734
Net NPA (%)	0.32	0.56
ROTA (%)	5.90	6.97

A: Audited; * Total Assets excludes Deferred tax assets and Intangible assets

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	-	-	-	-	25.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018

1.	Fund-based-Long Term	LT	250.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Dec-19) 2)CARE A; Stable (05-Jul-19)	1)CARE A; Stable (05-Oct-18)	-
2.	Debentures-Non Convertible Debentures	LT	50.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Dec-19) 2)CARE A; Stable (05-Jul-19) 3)CARE A; Stable (07-May-19)	-	-
3.	Debentures-Non Convertible Debentures	LT	25.00	CARE A+; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument

Particulars	Key indicative terms of the issue
Financial Covenants	• The ratio of Total Debt divided by Net Owned Funds should not be more than 5 (Five) times during the tenor of the Debentures. • The Gross NPA, expressed as a percentage, should not exceed 3%. • The Net NPA, expressed as a percentage, should not exceed 2%. • The Capital Adequacy Ratio shall, at all times, be maintained in accordance with the requirements of the Reserve Bank of India, as applicable from time to time during the tenure of the Debentures.

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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