Aptus Value Housing Finance India Limited

December 06, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	1,000.00	**CARE A+; Stable (Single A plus; Outlook: Stable)**	**Revised from CARE A; Stable (Single A; Outlook:Stable)**
Total Facilities	**1000.00 (Rupees One thousand crore only)**		
Non-Convertible Debenture	99.70 (Rs. Fifty crore only)	**CARE A+; Stable (Single A plus; Outlook: Stable)**	**Revised from CARE A; Stable (Single A; Outlook:Stable)**
Total Instruments	**99.70 (Rupees Ninety nine crore and seventy lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities and debt instruments of Aptus Value Housing Finance India Limited (AVHFIL) factors in the equity infusion of Rs.800 crore during September 2019, resultant increase in net worth of the company to Rs.1,577 crore as on September 30, 2019 and improved financial performance along with improvement in scale of operations in FY19 (refers to the period April 01 to March 31) and H1FY20 (refers to the period April 01 to Sep 30). The ratings continue 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 indicators supported by well-managed in-house appraisal, origination & collection team and good MIS system.
The ratings are 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. In the light of high growth plans envisaged by the company, ability of AVHFIL to maintain asset quality & profitability while geographically diversifying its portfolio and improve operational efficiency would be the key rating sensitivities.
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
Comfortable capital adequacy and low overall gearing
AVHFIL's capitalisation profile has improved significantly as the company has raised equity of Rs.800.14 crore during Q2FY20 from its existing investors- WestBridge Capital and Malabar Investments and New investors- Steadview Capital and Sequoia Capital following which the net worth of the company increased to Rs.1,577 crore as on September 30, 2019 (Rs.699 crore as on March 31, 2019). The capital adequacy levels continue to remain comfortable with CAR and Tier 1 CAR at 83.33% and 83.72% (43.6% and 43.2% as on March 31, 2019). Following the capital infusion the gearing of the company reduced to 1.2x times as on September 30, 2019 (2.3x times as on March 31, 2019). The current capitalisation levels are adequate to propel business growth for next 2-3 years, to reach a portfolio of Rs.9,000 crore by March 2022, gearing capped at 3.5-4 times.

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

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

the Financial Services Business in 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 8 directors, 1 Chairman and Managing Director, 3 Independent directors, 2 nominee directors and 2 non whole time directors with extensive experience in financial services. The two nominee directors represent the PE firm who have infused equity capital in the company. Mr. Anandan is assisted by an experienced management team. Mr. P Balaji, Chief Financial Officer handles Treasury, Finance and Accounting functions and Mr. Subramaniam G, is the Chief of Risk and Operations Departments.

Consistent growth in the scale of operations with improvement in profitability indicators
The total loan portfolio has increased by 60% in FY19 (PY: 67%) to Rs.2,236.1 crore (AUM stood at Rs.2,247.3 crore) as on March 31, 2019 from Rs.1,396.1 crore as on March 31, 2018. During H1FY20, the loan portfolio increased by 23% to Rs.2,734 crore. As on March 31, 2019, on a standalone basis, AVHFIL's AUM stood at Rs. 2,029 crore(Rs.2,397 crore as on September 30, 2019), of which HL segment constituted 62%. During FY19, on a consolidated basis the housing loan portfolio grew by 61% and the non-housing loan portfolio grew by 58% and the housing loan portfolio stood (56% of the total portfolio mix) at Rs.1,255 crore as on March 31, 2019, while the non-housing loan portfolio(44% of the total portfolio mix) stood at Rs.992 crore as on March 31, 2019. The proportion of housing and non-housing loan portfolio of AVHFIL (on a standalone basis) stood at 62% and 38% respectively as on March 31, 2019(61% and 39% as on Septmeber 30, 2019). Self-employed segment constituted around 77% of the total portfolio as on March 31, 2019.
The profitability indicators of AVHFIL have been healthy with a PAT at Rs.112 crore for FY19 (PY: Rs.70 crore). The operating expenses (as a % of average total assets) of AVHFIL stood at 3.6% in FY19 (PY: 4.2%) as the company has been deriving scale benefits supported by the growing scale of operations. The credit costs (as a % of total assets) stood low at 0.1% for FY19 (0.1% for FY18). ROTA stood at 5.8% for FY19 (PY: 5.8%). The return on net worth improved to 17.3% in FY19 as against 12.1% in FY18. During H1FY20, PAT stood at Rs.80 crore on a total income of Rs.237 crore. The Net Interest Margin stood at 9.7% during H1FY20. The operating expenses (as a % of average total assets) declined to 3.0% during H1FY20 as the company has been deriving scale benefits supported by the growing scale of operations. The ROTA stood at 5.5% during H1FY20.

Growing scale of operations with improvement in geographical concentration
The loan portfolio (consolidated) of AVHFIL has grown at a CAGR of 68% in the last 3 year period (from March 31, 2016 to March 31, 2019) and stood at Rs.2,236 crore as on March 31, 2019. During H1FY20, the loan portfolio increased by 23% to Rs.2,734 crore. Currently, AVHFIL has presence in the states of Tamil Nadu, Karnataka, Telangana and Andhra Pradesh with a total of 167 branches. AVHFIL's portfolio concentration in Tamil Nadu has declined from 71% of portfolio as on March 31, 2017 (65% of total portfolio as on March 31, 2018) to 60% as on March 31, 2019 and further to 58% as on September 30, 2019. On the other hand, share of AP has increased from 8% as on March 31, 2017 (14% as on March 31, 2018) to 21% as on March 31, 2019. The company is planning to expand to 185 branches in FY20 by increasing presence in the states of Telangana, Andhra Pradesh and Karnataka. 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 and the concentration on TN is expected to moderate with higher expansion in other states. 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. Automatic SMS sent to customers before due-dates. The collection team follows up and meets the customers directly in case of delay in repayments. The appraisal and originations systems are adequate to assess borrower credit profiles.

Good asset quality, however limited portfolio seasoning
AVHFIL (consolidated) gross NPA stood at 0.4% as on March 31, 2019 (PY: 0.5%) and the NNPA stood at 0.3% as on March 31, 2019(PY: 0.4%). As on September 30, 2019, AVHFIL (consolidated) gross NPA stood at 0.7% (0.7% as on September 30, 2018). The monthly average bounce rates for ECS/PDC/NACH remains at around 19% for AVHIL (PY: 17%) and 10% for AFIPL for FY19. 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, 2019, 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 four years ended March 2019. 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.

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

AVHFIL funding profile is moderately diversified with borrowings from banks, NCDs and NHB constituting 43%, 47% and 10% respectively as on March 31, 2019 (PY:44%,36% and 20% respectively). During FY19, the company has taken initiatives to diversify its funding profile by raising Rs.101.0 crore NCD from International Financial Corporation and Rs.300.0 crore from Templeton Mutual Fund. As on September 30, 2019, with borrowings from banks, NCDs and NHB constituting 42%, 41% and 11% respectively.

Liquidity- Adequate

The company's asset liability maturity (ALM) profile reflects no cumulative negative mismatches in all the timeline buckets. The company has cash and liquid investments of about Rs. 718 crore and sanctioned unavailed bank lines of about Rs. 275 crore as of September 30, 2019 while it has repayment obligations of about Rs. 362 crore over 12 months (October 2019 to September 2020). ALM profile of the Company reflects positive cumulative mismatches across buckets below the tenure of 1 year even if the collection efficiencies were to reduce to 95% and 90%.

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 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

About the Company

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 September 30, 2019, promoter and his relatives held 26.62% stake, West Bridge Capital (35.97%), JIH II (held 8.66%), Aravalli Investment Holdings (4.14%), Granite Hill India Opportunities Fund Mauritius (4.19%), Madison India Opportunities Fund(3.37%), Steadview Capital Mauritius Fund(3.38%), Malabar India Fund Limited (3.63%), Malabar Select Fund Limited (3.63%), Malabar Value Fund(0.62%) and remaining 5.81% 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 a loan portfolio of Rs.2,247 crore (including off-book portfolio of Rs.11 crores) as on March 31, 2019(Rs.2,734 crore as on September 30, 2019), of which housing segment constituted 56% with the rest being non-housing portfolio. The proportion of housing and non-housing loan portfolio of AVHFIL (on a standalone basis) stood at 62% and 38% respectively as on March 31, 2019(61% and 39% as on September 30, 2019). The IRR for housing loans is generally 14-17% while that of the non-housing loan is 18.0-21.0%. The company extends housing loans with between Rs.5 to Rs.25 lakhs. The company is one of the early private sector entrants in South India catering to the affordable housing segment. As on March 2019, AVHFIL had 143 branches (167 branches as on September 30, 2019) in the states of Tamil Nadu (67), Karnataka (15), Telangana (14) and Andhra Pradesh (47).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
	Ind AS	Ind AS
Total operating income	204	338
PAT	67	112
Interest coverage (times)	2.92	2.33
Total Assets	1,465	2,363
Net NPA (%)	0.40	0.32
ROTA (%)	5.77	5.84

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

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
Fund-based – LT- Term Loans	-	-	-	November 2030	995.00	CARE A+; Stable
Fund-based – LT- Cash Credit		-	-	-	5.00	CARE A+; Stable
Debentures-Non Convertible Debentures Tranche I	INE852O07014	July 27, 2016	10.00%	May 15, 2023	33.20	CARE A+; Stable
Debentures-Non Convertible Debentures Tranche II	INE852O07022	February 8, 2017	9.35%	May 15, 2023	33.20	CARE A+; Stable
Debentures-Non Convertible Debentures Tranche III	INE852O07030	May 18, 2017	9.85%	May 15, 2023	33.30	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	995.00	CARE A+; Stable	1)CARE A; Stable (05-Jul-19)	1)CARE A; Stable (06-Jul-18)	1)CARE A; Stable (16-Jun-17)	1)CARE A-; Positive (14-Mar-17) 2)CARE A- (05-Jul-16) 3)CARE A- (07-Apr-16)
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE A+; Stable	1)CARE A; Stable (05-Jul-19)	1)CARE A; Stable (06-Jul-18)	1)CARE A; Stable (16-Jun-17)	1)CARE A-; Positive (14-Mar-17) 2)CARE A- (05-Jul-16) 3)CARE A- (07-Apr-16)
3.	Debentures-Non Convertible Debentures	LT	99.70	CARE A+; Stable	1)CARE A; Stable (05-Jul-19)	1)CARE A; Stable (06-Jul-18)	1)CARE A; Stable (16-Jun-17)	1)CARE A-; Positive (14-Mar-17) 2)CARE A- (05-Jul-16)
4.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	1)Withdrawn (06-Jul-18)	1)CARE A1 (16-Jun-17)	1)CARE A2+ (14-Mar-17) 2)CARE A2+ (05-Jul-16)

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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