

July 13, 2017

## Aptus Value Housing Finance India Limited

### Summary of rated instruments

Instruments*	Rated Amount (Rs. crore)	Rating Action
Long term loans	500.0	[ICRA]A (stable); upgraded from [ICRA]A- (stable)

\*Instrument details are provided in Annexure-1

### Rating Action

ICRA has upgraded the rating for the Rs. 500.0 crore long term loans of Aptus Value Housing Finance India Limited (Aptus) from [ICRA]A- (pronounced ICRA A minus) to [ICRA]A (pronounced ICRA A)<sup>1</sup>. The outlook on the rating remains stable.

### Rationale

The upgrade in the rating considers the company's ability to scale-up its operations profitably while maintaining a control on asset quality. The rating takes cognisance of the company's comfortable capitalisation profile, which will support its envisioned portfolio expansion over the next three years while keeping the leverage at about 3.5-4.5 times. ICRA also takes cognisance of the large untapped affordable housing finance market and the healthy growth prospects for the segment. During FY2017, the company's disbursements and portfolio grew by a healthy 65% and 72% respectively, with average ticket size in the range of Rs.7-8 lakh. The company's profitability (return on average assets) improved to 5.5% in FY2017 from 4.2% in FY2016 driven by declining cost of funds and low leverage. Its asset quality also remained stable with gross NPAs at 0.47% as on March 31, 2017 (0.47% as on March 31, 2016), supported by prudent underwriting norms and good collection efficiencies, albeit on a relatively less seasoned book. The rating also continues to factor in the experience of the promoters and the senior management in retail lending, and their understanding of the target segment. With the Government of India (GoI) incentivising home ownership through a credit linked subsidy scheme and affordable housing being accorded infrastructure status, demand prospects remain favourable over the medium-to-long term. The company has funding relationships with a number of lenders, however, in light of its significant business expansion targets, it would be crucial for Aptus to mobilise long term funds from diverse sources and at competitive rates of interest.

The rating is, however, constrained by Aptus' moderate track record and scale, its geographically concentrated operations and the limited diversity in its earnings profile. ICRA takes note of the company's exposure to customers with modest credit profile, increase in the share of the non-housing loan portfolio in the recent past and the vulnerability of the company's target segments to income shocks in case of unfavourable economic cycles.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications

## Key rating drivers

### Credit strengths

- Promoters and management team experienced in retail lending with a good knowledge of the target customer segment; however, low cost housing is a relatively new business segment
- Large untapped target market of rural and semi-urban low-income housing coupled with the GoI's push towards Housing for All by 2022 provides a favourable demand outlook
- Comfortable capitalisation level (0.59x as on March 31, 2017) to support business growth over the next three years
- Effective and commensurate IT systems; loan origination, credit appraisal, legal and technical evaluation entirely in-house
- Good asset quality, characterised by healthy collections; portfolio however yet to be seasoned
- Good net profitability supported by low gearing and improvement in operating efficiency; however moderate RoE currently

### Credit challenges

- Moderate track record and scale of operations
- Portfolio likely to remain concentrated in South India at least over the medium term
- Increase in the share of non-housing (NH) loan portfolio (43% of total portfolio as on March 31, 2017; mitigated to an extent since 35% of the NH loans are extended towards house construction, expansion or purchase (which do not meet the NHB guidelines for classification as housing loans)
- Focus on lower to middle income self-employed borrowers without documented income proofs, renders credit assessment relatively complex; additionally, the borrowers susceptibility to income shocks, may impact their debt servicing capability in times of stress
- Ability to raise long term funds from diverse sources and to manage asset-liability profile over the medium term; relationships with multiple lenders, comfortable current liquidity supported by the low gearing impart comfort
- Limited diversity in its earnings profile

## Description of key rating drivers:

Aptus is a housing finance company operating in the affordable housing loan segment. The company's managed portfolio grew from Rs. 520.0 crore as on March 31, 2016 to Rs. 852.9 crore as on March 31, 2017. Aptus's operations are geographically concentrated with Tamil Nadu accounting for 72% of the portfolio as on March 31, 2017; the company however, intends to diversify in other southern states over the next two years. ICRA expects the company to grow its portfolio at a CAGR of 60-65% during FY2018-2020. Being well-capitalized (gearing of 0.59x as on March 31, 2017), the company is likely to achieve the targeted portfolio growth, while maintaining a comfortable capital structure.

The share of non-housing loans in the company's portfolio increased to 43% as on March 31, 2017 from 37% as on March 31, 2016 (29% as on March 31, 2015). However, about 35% of the non-housing loans are towards house construction, expansion or purchase, which do not meet the NHB guidelines for classification as housing loans. This to an extent offsets the risk on account of the high share of non-housing loan book in the overall portfolio.

The company remains focused on self-employed customers, who accounted for more than 97% of the total portfolio as on March 31, 2017. ICRA takes note of the risk arising from the modest credit profile of the target customer segment and the limited portfolio seasoning; the risk however is partly off-set by the company's in-house origination and collection team, prudent appraisal and lending norms, and adequate

portfolio tracking systems. Aptus also has access to the SARFAESI Act, which would improve its ability to initiate and undertake effective recoveries.

Aptus's asset quality remained stable with gross NPAs of 0.47% as on March 31, 2017. The company's collection efficiency remained comfortable post demonetisation, at around 99% during the last one year. ICRA would monitor Aptus's ability to contain delinquencies and recover from delinquent accounts as its portfolio grows, its products complete a few loan cycles, and it ventures into new geographies. ICRA notes that the company would have to recruit and train a larger number of employees, and upgrade its appraisal, lending and monitoring processes as it enhances its business size and geographical presence, to maintain a comfortable asset quality profile.

Aptus reported good profitability (return on average assets) at 5.5% in FY2017 in comparison with 4.2% for FY2016 supported by an improvement in operating efficiencies, equity infusion (Rs.270 crore in FY2017) and low credit costs. The return on equity however was moderate at 10.1% for FY2017 (8.6% for FY2016) because of the low gearing. The company is expected to focus on increasing penetration through its existing 87 branches while adding new branches at the rate of about 30-35 per annum over the next three years. The company's ability to improve business volumes and operational efficiencies by leveraging its branch network whilst containing its credit costs would be crucial from a profitability perspective, going forward.

Aptus's funding profile is characterised by funding from banks, NHB and through long term debentures (from International Finance Corporation), which stood at 44%, 32% and 24% respectively of its total borrowings as on March 31, 2017. The company's liquidity profile is adequate supported by the low leverage. ICRA takes note of the initiatives taken by the company to secure funding from diverse sources; however, considering the robust expansion targets, it would be crucial to further diversify the funding sources and secure long term funding to maintain a comfortable asset liability profile.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### **Links to applicable criteria**

#### **ICRA rating methodology for housing finance companies**

#### **About the company:**

Aptus Value Housing Finance India Limited (Aptus) is a housing finance company, incorporated in December 2009. Aptus's corporate office is located in Chennai. The company's target borrowers are from the low to middle-income segments, with an average ticket size of about Rs. 7 lakh. The company's target geographies are the southern states, with a focus on rural and semi-urban areas. Aptus is largely focussed on self-employed customers without documentary evidence of their income, and limited access to funding from banks and larger HFCs. The company has adequate systems and processes to assess the income of borrowers. The company is promoted by Mr. M Anandan. The company's total networth stood at Rs.521 crore as on March 31, 2017.

As of March 31, 2017, the company reported gross NPAs of 0.47% and net NPA at 0.36%. In FY2017, the company reported a net profit of Rs.36.9 crore on a managed asset base of Rs. 878.6 crore compared with a net profit of Rs.17.5 crore on a managed asset base of Rs. 544.9 crore.

**Status of non-cooperation with previous CRA:** Not Applicable.

**Any other information:** Not Applicable.

**Key financial indicators of Aptus for the two years ended FY2017**

<b>Aptus</b>	<b>FY2016</b>	<b>FY2017</b>
Total Income (Rs crore)	78.0	125.9
Profit after Tax (Rs crore)	17.5	36.9
Net worth (Rs crore)	212.0	520.7
Total Managed Portfolio (Rs crore)	520.1	852.9
Total Managed Assets (Rs crore)	544.9	878.6
Return on Average Assets	4.2%	5.5%
Return on Managed Assets	4.0%	5.2%
Return on Net Worth %	8.6%	10.1%
Gearing (Reported)	1.3	0.6
Gross NPA %	0.47%	0.47%
Net NPA %	0.38%	0.36%
Capital Adequacy Ratio %	74.8%	98.1%

Source: Aptus

**Rating history for last three years:**

**Table:**

<b>S. No.</b>	<b>Instrument</b>	<b>Current Rating (FY2018)</b>			<b>Chronology of Rating History for the past 3 years</b>		
		<b>Type</b>	<b>Rated amount (Rs. crore)</b>	<b>FY2018</b>	<b>FY2017</b>	<b>FY2016</b>	<b>FY2015</b>
				<b>July 2017</b>	<b>Feb 2017</b>	<b>Mar 2016</b>	<b>Jan 2015</b>
1	Term Loans	Long term	500.00	[ICRA]A (stable)	[ICRA]A- (stable)	[ICRA]BBB+ (positive)	[ICRA]BBB+ (stable)

**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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Rated Amount (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Long Term-Proposed limits	-	-	-	500.0	[ICRA]A(Stable)

*Source: Aptus*

## Contact Details

### Analyst Contacts

**Rohit Inamdar**

+91-124-4545847

[rohit.inamdar@icraindia.com](mailto:rohit.inamdar@icraindia.com)**A M Karthik**

+91-44-45964308

[a.karthik@icraindia.com](mailto:a.karthik@icraindia.com)**Govindaraj Prabhu M**

+91-44-45964306

[Govindaraj.m@icraindia.com](mailto:Govindaraj.m@icraindia.com)

### Relationship Contact

**Mr. L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

### 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.

For more information, visit [www.icra.in](http://www.icra.in)

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500