

## Aptus Value Housing Finance India Limited

July 06, 2018

### Ratings

| Facilities/Instruments             | Amount<br>(Rs. crore)   | Ratings <sup>1</sup>                          | Rating<br>Action |
|------------------------------------|---|---|------------------|
| Long-term Bank Facilities          | 1,000<br>(enhanced from Rs.500 Crore)                                       | CARE A; Stable<br>(Single A; Outlook: Stable) | Reaffirmed       |
| Short-term Bank Facilities         | -   | -   | Withdrawn        |
| <b>Total Facilities</b>            | <b>1,000</b><br><b>(Rupees One thousand crore only)</b>                     |   |                  |
| Non-Convertible<br>Debenture Issue | 99.70<br>(reduced from Rs.100 Crore)  | CARE A; Stable<br>(Single A; Outlook: Stable) | Reaffirmed       |
| <b>Total Instruments</b>           | <b>99.70</b><br><b>(Rupees Ninety nine crore and seventy<br/>lakh only)</b> |   |                  |

*Details of instruments/facilities in Annexure-1*

#### **Detailed Rationale**

The ratings assigned to the bank facilities and debt instrument of Aptus Value Housing Finance India Limited (AVHFIL) 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 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 FY18 (refers to the period April 1 to March 31).

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.

#### **Detailed description of the key rating drivers**

##### **Key Rating Strengths:**

##### **Experienced promoter and senior management**

AVHFIL is promoted by Mr. M Anandan, who is the Chairman and Managing Director of AVHFIL. Mr. M Anandan has overall experience of about 30 years in financial services industry and has held various senior positions in the companies under Cholamandalam, part of Murugappa group. He has also held directorship position in some of the South India based NBFCs. AVHFIL has 8 directors, 3 Independent directors, 3 nominee directors and 2 non whole time directors with extensive experience in financial services. The three nominee directors represent the PE firms who have infused equity capital in the company. Mr. Anandan is assisted by the management team which also has significant experience in the financial services industry.

##### **Consistent growth in loan portfolio with healthy & improving profitability indicators**

AUM increased to Rs.1411 crore as on March 31, 2018 from Rs.847 crore as on March 31, 2017 at a rate of 67%. As at March 31, 2018, housing loans constitute 57% (57% as on March 31, 2017) of AUM and rest 43% constitutes non-housing loan segment. Around 23% of Non-Housing Loan portfolio (or 10% of the overall AUM) was extended towards individual housing loans for construction, extension or purchase, which do not meet National Housing Bank's (NHB) guidelines for classification as housing loans. Self-employed constitute 89% of the outstanding AUM as on March 31, 2018.

Healthy business growth over the last few years has resulted in robust growth in earnings profile. Interest income increased from Rs.114 crore in FY17 to Rs.185 crore in FY18 registering a growth of 63%. On account of lending to the self-employed in the informal low and middle income segment, wherein the company is able to derive higher IRR, AVHFIL has been able to achieve good profitability. NIM remained at 11.41% in FY18 as against 11.52% in FY17. Reduction in cost of borrowings post equity infusion in FY17 has resulted in improvement in margins. ROTA has improved by 58 bps from 5.49% in FY17 to 6.07% in FY18 with improvement in operating cost and credit costs remaining stable during the year.

##### **Healthy capital adequacy levels**

AVHFIL has seen continuous equity infusion over the past few years from private equity investors. CAR decreased from 98.07% (Tier 1 CAR: 97.84%) as on March 31, 2017 to 63.90% (Tier 1 CAR: 63.50%) as on March 31, 2018 on account of high growth (67%) in loan portfolio. However, the current capitalization levels are sufficient to propel business growth over the medium term. Overall gearing has increased to 1.40x as on March 31, 2018 from 0.59x as on March 31, 2017.

##### **Well managed MIS, in-house Appraisal, origination and collection team leading to good asset quality**

Core strength of AVHFIL is its in-house team covering all the facets starting from business sourcing, recovery and collection. AVHFIL has of in-house technical and legal team in hubs who cover all the branches. AVHFIL has a centralized

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

credit-appraisal and monitoring system. Apart from sourcing and collections, all activities are centralized. The selection of the customers runs through several levels of checks including KYC norms, risk assessment, personal discussion and verification of the business track record and references from existing customers. The collection team has the responsibility to follow up the customers and meets the customer directly in case of delays. In case of cash collection from the customer's site, a receipt would be provided and the MIS is updated on real-time basis which helps senior management to track the portfolio more efficiently. With such strong appraisal and collection mechanism, AVHFIL has been able to grow consistently, without any significant strain on the asset quality.

#### **Good asset quality parameters**

AVHFIL has maintained healthy asset quality primarily on account of conservative credit policy and efficient collection mechanism. AVHFIL provides loans with average LTV ratio of 45% which gives them considerable margin of safety, in case of any delinquencies. The collection efficiency remained above 98% in FY18 aided by efficient portfolio tracking systems in place. Gross NPA stood at 0.48% as on March 31, 2018 (0.45% as on March 31, 2017) whereas the Net NPA stood at 0.40% as on March 31, 2018 (0.34% as on March 31, 2017). 1+ DPD has increased to 3.63% as on March 31, 2018 from 2.63% as on March 31, 2017. Net NPA/Net worth stood at 0.94% as on March 31, 2018 (PY: 0.56%).

#### **Growing scale of operations with improvement in geographical concentration**

AVHFIL commenced lending operations in August 2010 and hence has limited track record of operations with limited seasoning of the loan portfolio as majority of the portfolio originated over the last three years ended March 31, 2018. Although the company has so far demonstrated strong ability to recover overdues, asset quality performance through different economic cycles and geographies is yet to be seen. AVHFIL has presence in the states of Tamil Nadu, Karnataka, Telangana and Andhra Pradesh with a total of 115 branches as on March 31, 2018. On account of diversification efforts taken by the company, share of Tamil Nadu (TN) in AUM has reduced from 71% as on March 31, 2017 to 65% as on March 31, 2018. While share of incremental disbursement in different states is likely to be evenly distributed, share of Tamil Nadu as a % of AUM continues to be high due to the well-established nature of operation in the state. AVHFIL's business is expected to remain focused on the Southern States (TN, Andhra Pradesh, Karnataka and Kerala) going forward; and the concentration on TN is expected to moderate. 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.

#### **Key rating weakness**

##### **Exposure to the under-banked segment of borrowers with limited portfolio seasoning**

AVHFIL is primarily lending to the needs of the self-employed customers in the informal 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.

#### **Resource Profile**

Bank borrowings constitute 44% (PY: 53%) of the total borrowings, NCD constitutes 36% (Mutual Funds and IFC) (PY: 22%) and NHB Refinance constitutes 20% (PY: 26%). During FY18, the company has diversified its resource profile by raising Rs.200 crore in the form of NCD. However, considering the high growth plans envisaged for the next three years, ability of the company to further diversify its funding sources and secure long term funding at lower cost will be critical.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios-Financial Sector](#)

[Rating Methodology for Housing Finance Companies \(HFCs\)](#)

[Rating Methodology for Short Term Instruments](#)

#### **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 in December 2009. AVHFIL caters 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 company extends housing loans in the range of Rs.5 to Rs.25 lakh with average ticket size being Rs.8 lakh and tenure of up to 20 years. The company is one of the early private sector entrants in South India catering to the affordable housing segment. As on March 2018, AVHFIL has 115 branches in the states of Tamil Nadu, Karnataka, Telangana and Andhra Pradesh. As on March 31, 2018, promoter and related parties held 30.44% stake, FIIs held 64.77% stake which included Granite Hill India Opportunities Fund Mauritius (5.09%), India Financial Inclusion Fund (10.24%), West Bridge Capital (43.44% as against 42.17% in March 31, 2017), Aravalli investment holdings (3%), Madison India Opportunities IV (3%) and remaining 4.78% stake is held by other investors.

| Brief Financials (Rs. crore) | FY17(A) | FY18(A) |
|------------------------------|---------|---------|
| Total income                 | 155.9   | 210.7   |
| PAT                          | 36.9    | 69.6    |
| Interest coverage (times)    | 2.55    | 2.95    |
| Total Assets                 | 846     | 1447    |
| Net NPA (%)                  | 0.34    | 0.39    |
| ROTA (%)                     | 5.48    | 6.07    |

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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