Rating Rationale
Aptus Value Housing Finance India Limited

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,000.00	CARE A+; Positive (Single A Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Total Bank Facilities	**1,000.00 (Rs. One Thousand Crore Only)**		
Non Convertible Debentures - I	99.70	CARE A+; Positive (Single A Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Total Long Term Instruments	**99.70 (Rs. Ninety-Nine Crore and Seventy Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has taken a consolidated approach of Aptus Value Housing Finance India Limited (AVHFIL) and Aptus Finance India Private Limited (AFIPL). The ratings assigned to the bank facilities and debt instruments of AVHFIL continues to derive strength from the experienced promoter and senior management team, healthy profitability, healthy capital adequacy levels which has further strengthened with mobilization of fresh equity through IPO recently, good asset quality parameters supported by well-managed in-house appraisal, origination & collection team and good MIS system. The asset quality of the company continued to hold good post first wave of COVID-19 also with GNPA remaining low at 0.66% as on March 31, 2021. Though delinquencies in softer bucket witnessed moderation during H1FY22 (refers to period from April 01 to September 30) on account of nationwide impact of second wave of COVID-19, GNPA witnessed slight moderation and stood at 0.82% as at the end of September 2021. Going forward, ability of the company to arrest movement in delinquencies from softer to harder buckets is key to maintain asset quality.

The company has demonstrated its ability to grow the loan book while maintaining the strong credit metrics with AUM growing from Rs.1,414 crore as on March 31, 2018 to Rs.4,482 crore as on September 30, 2021. Supported by strong networth[2] of Rs. 2,679 crore as on September 30, 2021 and plans to deepen its penetration in existing markets, company expected to report good loan book growth while maintaining healthy capitalisation in the immediate to near term. However, the ratings are constrained by relatively moderate but growing size of its loan book, limited seasoning & geographical concentration of its portfolio which has seen gradual improvement in the last three years with share of Tamil Nadu coming down from 64% as on March 31, 2018 to 50% as on September 30, 2021 and inherent risks associated with its borrower profile mostly being self-employed in the informal segment. Going forward, growth in loan book with stable credit metrics will be key monitorable considering 46% of its loan book (on consolidated basis) is non-housing loans which includes quasi home loans constituting 16% of its loan book (on consolidated basis). It is worthwhile to note that though GNPA of non-

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

[2] *Net off Deferred tax assets and intangible assets*

housing loan book stood relatively higher than total loan book at 1.10% as on September 30, 2021, however it is relatively better than some of the peers in SME loan segment.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

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

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any weakening of asset quality parameters with gross non-performing asset (GNPA) of above 3% on sustained basis

Outlook: Positive

The revision in outlook from Stable to Positive factors in the improvement in networth in the past 18 months period supported by combination of mobilisation fresh equity funds (Rs.500 crore through IPO) and retention of profits which is expected to support the company to grow its business while maintaining comfortable capitalisation levels. As on September 30, 2021, networth stood at Rs.2,679 crore (consolidated). Present level of networth is more than adequate to grow its loan in the near to medium term while maintaining comfortable capitalisation levels. Though delinquencies witnessed increase post second wave of COVID-19 in the quarter ended June 2021 same has witnessed improvement in quarter ended September 2021, demonstrating its ability to contain further slippages from softer buckets to harder buckets. The outlook may be revised to 'Stable' if there is sharp moderation in asset quality.

Detailed description of the key rating drivers

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 experience of more than four decades in financial services industry and has held various positions in the companies under the Murugappa group. Mr. 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 CEO / Director of the Financial Services Businesses in Murugappa Group. He has also held directorship position in some of the south India-based NBFCs. AVHFIL has 10 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 Finance, treasury, Internal audit, compliance and Admin and Mr Subramaniam G, is the Executive Director & Chief – business and Risk handles operations, credit, legal & recovery.

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.

Growing scale of operations with reduction in geographical concentration

AUM (consolidated) of AVHFIL has grown at a CAGR of 43% in the last three-year period (from March 31, 2018 to March 31, 2021) and stood at Rs.4,104 crore as on March 31, 2021. On a yearly basis, consolidated AUM has grown by 29% in FY21 (PY: 42%; refers to the period April 1 to March 31). On a standalone basis, AUM of AVHIFL stood at Rs.3,509 crore (which had a portfolio mix of 63% of Housing Loans and 37% of Non-Housing loans) while AUM of AFIPL stood at Rs.594 crore. Self-employed segment constituted around 73% of the total portfolio as on March 31, 2021. AUM stood at Rs. 4,482 crore as on September 30, 2021 reporting y-o-y growth of 27% in H1FY22. Supported by strong networth of Rs.2,679 crore as on September 30, 2021 and plans to deepen its penetration in existing markets, company expected to report good loan book growth while maintaining healthy capitalisation in the immediate to near term.

Currently, AVHFIL has presence in the states of Tamil Nadu, Karnataka, Telangana and Andhra Pradesh with a total of 198 branches. AVHFIL's portfolio continues to be concentrated in Tamil Nadu. However, the concentration in Tamil Nadu has declined from 56% of the portfolio as on March 31, 2020 to 52% of total portfolio as on March 31, 2021 and further to 50% as on September 30, 2021. On the other hand, share of AP has increased from 24% as on March 31, 2020 to 28% as on March 31, 2021 and to 29% as on September 30, 2021. The company is planning to expand to Odisha, Maharashtra and Chattisgarh on pilot basis during FY22. However, AVHIFL's business is expected to remain focused on the southern states (TN, Andhra Pradesh, Telangana and Karnataka) in the medium term as it plans to further deepen its presence in some of 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 AVHIFL (consolidated) continues to remain healthy. AVHFIL extends housing loans at ROI of 13.50% to 15.00% and non-housing loans at ROI of 17.00 to 21.00%. Same results in relatively higher profitability. NIM stood at 10.13% in FY21 (PY: 9.91%). 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 2.92% in FY20 to2.37% in FY21. The credit cost (as a percentage of avg total assets) stood low at 0.14% for FY21 (0.09% for FY20). ROTA stood at 6.48% for FY21 (PY: 6.97%). NIM, Opex and ROTA stood at 10.74%, 2.45% and 6.57% during H1FY22. AVHIFL (Consolidated) has reported PAT of Rs.267 crore in FY21 and PAT of Rs. 159 crore in H1FY22.

Healthy capital adequacy further strengthened with mobilisation of fresh equity through IPO recently

AVHFIL has seen continuous equity infusion over the past few years from private equity investors which helped the company to maintain comfortable capital adequacy levels. AVHFIL had come up with an Initial public offering (IPO) during August 2021 with primary issuance of Rs.500 crore and offer for sale of Rs.2280 crore. The issue was subscribed by 17.20 times and the company got listed on August 24, 2021. Post IPO also shareholding of promoter group stood at 62.51% as on September 30, 2021 with 37.37% held by WestBridge CrossOver Fund LLC and around 25.14% held by founder promoter Mr.Anandan & immediate relatives.

CAR stood at healthy level of 73.63% as on March 31, 2021 as against 82.50% as on March 31, 2020. Post the IPO, CAR has further strengthened to 92.26% as on September 30, 2021. Net worth and gearing of AVHFIL stood at Rs.1,957 crore and 1.28 times as on March 31, 2021 as against Rs.1,692 crore and 1.19 times as on March 31, 2020. Net worth and gearing stood at Rs.2,679 crore and 0.89 times as on September 30, 2021. Present level of networth will enable the company to grow its AUM for the next 3-5 years without any further equity infusion.

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 Rs.1,414 crore as on March 31, 2018 to Rs.4,482 crore as on September 30, 2021. Supported by strong networth of Rs.2,679 crore as on September 30, 2021 and plans to deepen its penetration in existing markets, company 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 46% of its loan book (on consolidated basis) is non-housing loans which includes quasi home loans constituting 16% of its loan book (on consolidated basis). Reportedly non-housing loans in the books of AVHFIL 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 SME segment against mortgage. As on September 30, 2021, on consolidated basis housing loans stood at 54%, QHL stood at 16% and SME loans at 22%.

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 three years ended March 2021.

AVHFIL (consolidated) gross NPA stood at 0.66% as on March 31, 2021 (PY: 0.70%) and Net NPA stood at 0.40% as on March 31, 2021 (PY: 0.56%). Gross NPA and Net NPA stood at 0.82% and 0.40% respectively as on September 30, 2021. AVHFIL has been able to maintain healthy asset quality over the years, primarily on account of efficient collection mechanism and conservative credit policy. AVHFIL extends loans with average LTV in the range of 25%-50% which provides considerable margin of safety, in case of any delinquencies. As on March 31, 2021, around 87% of the loan portfolio remains below LTV of 50%. Delinquency level of AVHFIL in softer buckets has remained relatively low in the range of around 2% to 5% in the past three years ended March 31, 2020. Though delinquencies witnessed increase post second wave of COVID-19 in the quarter ended June 2021 same has witnessed improvement in quarter ended September 2021, demonstrating its ability to contain further slippages from softer buckets to harder buckets. 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

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, NHB and securitization constituting 56%, 17%, 23% and 4%, respectively, as on March 31, 2021 (PY: 49%, 32%, 14% and 5%, respectively). As on September 30, 2021 the proportion of borrowings from banks, NCDs, NHB and securitization stood at 48%, 18%, 31% and 4%. The borrowings from banks mainly consist of borrowings from large public sector and private sector banks.

Industry outlook

Housing finance sector which is pre-dominantly the asset class with the lowest annual credit losses on account of the collateral and the secured nature of the funding. Collection efficiency of all the players were impacted during Q1FY21 on account of nationwide restrictions during that period due to COVID-19, with gradual rebound during the rest of the year. The Government and the RBI have been attentively monitoring the situation and have announced a series of stimulus packages to support financial institutions and the lower income groups. However, asset quality for the affordable HFCs (ticket size less than Rs. 15 Lakhs) remains weaker than prime lend. Customers in this segment are more susceptible to economic downturns with their income being closely linked to economic performance.

The recent IRACP norms by RBI made applicable to NBFCs could result in more loans being classified as NPAs as partially paid loans could be classified as a slippage and would increase the Gross NPAs in the middle of the year. The increase in Gross NPAs would vary according to the different asset classes, borrower characteristics, loan tenure, etc. At the same time, credit cost may not go up significantly since large NBFCs follow Ind AS recognising entire credit losses in the year in which slippage occur. While NPAs would inch up, the required provisions as percentage of such NPAs is likely to reduce to some extent. In some stray cases, however, the higher requirements under IRACP norms would lead to higher provision requirement than being provided under Ind AS.

Impact of Covid-19

There was a decrease in disbursement during Q1FY22 (refers to period from April 01 to June 30) on account of the impact of covid-19 pandemic wave 2 and subsequent lockdown restrictions. The company has restructured part of its portfolio on account of the pandemic situation (OTR 2.0). The restructuring was done only for stage 1 and stage 2 classified loan assets. As on September 30, 2021, the total restructured portfolio stood at 1.68% of the outstanding loan portfolio. Including the same, gross stressed assets stood at 2.56% as on September 30, 2021 which is comparable to peers.

Liquidity: Adequate

The liquidity profile of AVHFIL 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 AVHFIL. As on September 30, 2021, AVHFIL had cash and Liquid assets amounting to Rs.736 crore.

Analytical approach:

CARE has taken a consolidated approach of AVHFIL and AFIPL as AFIPL 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 AFIPL 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: Consolidation

About the Company

Aptus Value Housing Finance India Limited (AVHFIL) is a housing finance company which was incorporated on December 11, 2009. As on September 30, 2021, 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.

AVHFIL 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 (Small & Medium Enterprises) business loans. AVHFIL had an AUM (consolidated) of Rs.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 with between Rs.5 to Rs.20 lakhs. The company is one of the early private sector entrants in South India catering to the affordable housing segment. As on September 30, 2021, AVHFIL had 198 branches in the states of Tamil Nadu, Karnataka, Telangana and Andhra Pradesh.

Financial Performance: ***(Rs. crore)***

Year ended / As on	31-03-2019	31-03-2020	31-03-2021
	A	A	A
Particulars			
Interest Income	311	485	624
Other operating income	9	12	12
Other Income	13	23	19
Total Income	**337**	**523**	**655**
Interest Expense & Financial Charges	116	185	207
Total Operating Expenses	**67**	**88**	**97**
PPOP	**154**	**250**	**351**
Provisions & Write offs	1	3	6
PBT	153	247	345

PAT	**112**	**211**	**267**
Financial Position			
Net Worth	686	1,692	1,957
Total Debt	1,600	2,015	2,508
Loan Portfolio	2,206	3,125	4,004
Total Assets	2,320	3,734	4,503
Key Ratios (%)			
Solvency			
Overall Gearing (times)	2.33	1.19	1.28
Interest coverage (times)	2.32	2.34	2.67
CAR %	43.64	82.50	73.63
Tier I CAR %	43.21	82.25	73.78
Profitability & Operating Efficiency Ratios (%)			
Net Interest Margin	10.32	9.90	10.12
Operating Expenses/Average Total Assets	3.55	2.92	2.37
ROTA (PAT / Average Total Assets)	**5.90**	**6.97**	**6.48**
Asset Quality Ratios (%)			
Gross NPA	0.40	0.70	0.66
Net NPA	0.32	0.56	0.40
Net NPA to Net worth	0.87	1.05	0.84

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

Details of rated facilities: Please refer Annexure-3

Covenants of rated instrument / facility: Annexure-4

Complexity level of various instruments rated for this company: Annexure-5

Bank Lender Details for this Company: Annexure-6

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 Loan	-	-	-	July, 2027	1000.00	CARE A+; Positive
Debentures-Non Convertible Debentures - I	INE852O07014	July 27, 2016	10.00%	May 15, 2023	33.20	CARE A+; Positive
Debentures-Non Convertible Debentures – I	INE852O07022	Feb 08, 2017	9.35%	May 15, 2023	33.20	CARE A+; Positive
Debentures-Non Convertible Debentures - I	INE852O07030	May 18, 2017	9.85%	May 15, 2023	33.30	CARE A+; Positive

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019

1	Fund-based - LT-Term Loan	LT	1000.00	CARE A+; Positive	-	1)CARE A+; Stable (04-Dec-20)	1)CARE A+; Stable (06-Dec-19) 2)CARE A; Stable (05-Jul-19)	1)CARE A; Stable (06-Jul-18)
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)	1)CARE A; Stable (06-Jul-18)
3	Debentures-Non Convertible Debentures	LT	99.70	CARE A+; Positive	-	1)CARE A+; Stable (04-Dec-20)	1)CARE A+; Stable (06-Dec-19) 2)CARE A; Stable (05-Jul-19)	1)CARE A; Stable (06-Jul-18)
4	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	-	1)Withdrawn (06-Jul-18)

** Long Term / Short Term*

Annexure 3: Details of Rated facilities

1. Long-term Facilities

<u>1.A. Rupee Term Loan</u>

Sr. No.	Name of Bank / Lender	Amount (Rs. crore)
1.	State Bank of India	135.00
2.	HDFC Bank Ltd - V	78.92
3.	Bank of India	42.59
4.	Federal Bank	23.50
5.	HDFC Bank Ltd - IV	8.00
6.	HDFC Bank Ltd - III	4.50
7.	HDFC Bank Ltd - I	2.31
8.	HDFC Bank Ltd - II	2.25
9.	ICICI Bank Ltd.	0.63
10.	Proposed	702.30
	Total	**1,000.00**

Total Long Term Facilities : Rs.1,000.00 crore

Total Facilities (1.A) : Rs.1,000.00 crore

Annexure-4: Detailed explanation of covenants of the rated instrument / 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 6 times

Annexure 5: 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 6: 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 instrument: *CARE Ratings 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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