

Press Release

APAC Housing Finance Private Limited

July 03, 2020



Rating Assigned

Bank Loan Rating	Rs. 70.00 Cr.
Long Term Rating	ACUITE A-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned a long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs. 70.00 Cr bank facilities of APAC HOUSING FINANCE PRIVATE LIMITED (AHFC). The outlook is '**Stable**'.

Analytical Approach

Acuité has adopted a consolidated approach on the business and financial risk profiles of APAC Financial Services Private Limited along with its wholly owned subsidiary APAC Housing Finance Private Limited together referred to as the 'APAC Group'. The consolidation is in view of the common promoter, common management, shared brand name and financial synergies between the companies.

Extent of Consolidation: Full.

About the Company

Mumbai based AHFC, was incorporated in May 2017 as a housing finance company (HFC) registered with the National Housing Bank (NHB). It started its operations in Aug 2018. It is a 100% subsidiary of APAC Financial Services Private Limited (AFSL). The company is promoted by Mr. Gunit Chadha, who is a seasoned banker with more than three decades of experience in the banking and financial services industry. He is also currently the Chairman and Managing Director of AFSL and a Director on the Board of AHFC.

About the Group

APAC Group comprises of two companies, AHFC and AFSL. AFSL was incorporated in May 2017, it is a non-deposit taking Non-Banking Finance Company (NBFC) registered with RBI. The company is engaged in extending credit to Micro Small and Medium Enterprises (MSMEs). AHFC is a wholly owned subsidiary of AFSL, it is engaged in extending affordable home financing loans. Both the companies are promoted by Mr. Gunit Chadha, a seasoned banker, with more than three decades experience in financial services industry. The group has a branch network of 24 branches spread across 6 states.

Key Rating Drivers

Strengths

• **Seasoned management team supported by reputed investors:**

APAC Group commenced its operation in FY2018. As on March 31, 2020 Mr. Gunit Chadha, the key promoter of the group, holds 43.67 per cent of the stake in AFSL. Multiples Alternate Asset Management Company Limited, an established private equity player, holds 47.23 percent stake in AFSL and the balance equity is spread across the group's leadership team and other investors.

AFSL currently has a four-member Board of Directors headed by Mr. Gunit Chadha. Mr. Gunit Chadha, is a seasoned banker with over three decades experience across commercial and investment banking. During his banking career he has occupied top positions such as CEO of Deutsche Bank (Asia Pacific region) and CEO of IDBI bank. He has been awarded with prestigious awards such as 'Banker of the year' by Business Standard in 2002.

The other members of the board include Mr. Shankar Dey, a seasoned banking and finance professional with over four decades experience in BFSI sector and Ms. Nithya Easwaran, who has over two decades experience in financial services, she is also the Managing Director of Multiples Alternate Asset Management Company Limited (Multiples).

Besides the board members, the Group also relies on expertise of seasoned professionals such as Mrs. Varsha Purandare who is the member of the credit committee. She has over three decades

experience in banking and has occupied senior positions including ex-Chief Credit & Risk Officer, SBI group in her career.

Mr. Gunit Chadha has infused ~Rs. 113.25 Cr. as his equity contribution and has an option of infusing an additional Rs.45 Cr. (towards partly paid-up share). As per internal arrangement between the shareholders he is committed to maintain his stake for three years till December 2021 and significant stake thereafter. Based on discussions with the other dominant investor, i.e. Multiples, Acuité believes they will be willing to support the company by additional capital if and when the need arises. Currently the group is adequately capitalised and had no borrowings as on March 31, 2020. The management plans to leverage up to 3 times over the near to medium term and gradually build up a granular portfolio. It is in talks with various lenders to raise debt to support its growth plans.

Acuité believes that APAC Group will continue to benefit from its experienced management and expectation of continued support from its investors to support its growth plans.

Weaknesses

- **Limited demonstrated track record in building and managing a retail portfolio; Current operating environment likely to impinge on near term operating performance:**

APAC group, (presently NBFC and HFC) received its NBFC licence in February 2018 and its HFC licence in May 2018. NBFC focuses on business loan segment which extends credit to MSMEs and HFC extends credit towards affordable housing segment and loan against property (LAP).

In the initial stage of its growth, the group built a book with large ticket exposures to SMEs, with strong promoter and/or private equity backing. The exposures during this period had ticket size ranging between Rs. 5 Cr. to 30 Cr. Following the challenges in overall economic conditions, the group shifted its focus towards building a relatively granular book. Consequently, the group has introduced various small ticket loans and brought down its average ticket size to from ~Rs. 60 lakh in Q1FY2020 to ~Rs. 14 lakh per borrower Q4FY2020.

The group still carries some part of the original legacy large ticket exposures, as on March 31, 2020 the top 20 exposures comprised of ~47 percent of its overall book. The exposure to chunky loans, exposes the group to risk inherent to wholesale lending i.e. slippage in one or two large accounts can impact the operating metrics i.e. the profitability and asset quality parameters. In FY2020 one of the top 20 accounts slipped into Non-performing Asset (NPA) category resulting into Gross NPA of 2.20% on overall book. Going forward, over the near term, the group targets to reduce high ticket exposures (i.e. exposures greater than Rs. 3 Cr.) to 20 percent of its networth as on March 31, 2021 as against ~ 30 percent as on March 31, 2020. Going forward, as a risk mitigation strategy, in respect of the MSME exposures it plans to cover its risk by obtaining credit guarantee under CGTSME scheme.

While the existing borrower profile comprises both operating companies and holding companies across various sectors, going forward the group plans to focus on small ticket loans to traders and manufacturing units through its products like LAP, POS based loans and vendor financing loans. The group is also open to growth through the inorganic route. Acuite observes that, most of APAC Group's branches were opened in second half of FY2020. The group plans to leverage the existing branch network for scaling up its operations in FY2021.

The growth trajectory of the company since its inception has been impacted by events such as the IL&FS crisis and recently the COVID-19 outbreak. The group's ability to raise debt at competitive rates and deploy the funds across various asset classes while maintaining an optimal risk return trade-off is yet to be demonstrated. The group has already put in place the physical and human infrastructure considering the growth plans over the near to medium term. The high level of operating costs will warrant generation of adequate business volumes to maintain healthy profitability levels. The current operating environment could pose challenges both in terms of availability of timely funding and availability of deployable opportunities, i.e. both supply side and demand side challenges. While the supply side challenges (i.e. raising of borrowings) will be relatively less considering the healthy capital structure and pedigree of promoters. The group could face higher challenges in building up a granular portfolio considering the subdued economic backdrop.

Acuité believes that, the group's ability to scale up its operations while mitigating asset quality pressures in a challenging operating environment will be a key determinant of its future credit profile.

Rating Sensitivity Factors

- Growth in AUM, profitability and asset quality.
- Maintaining granularity in the portfolio
- Gearing beyond 2.5x
- Maintenance of adequate Liquidity

Liquidity Position – Strong

The liquidity position of the group is comfortable. The operations of the group are at present equity funded, as seen in NIL gearing as on March 31, 2020. The group has no debt servicing obligation over the near term. As on March 31, 2020 the group had liquidity of ~Rs. 127 Cr. in liquid assets, it also plans to maintain a minimum of Rs. 50 Cr. in liquid assets at all times over the near term. It plans to keep its gearing at 2.5x over the near to medium term.

Outlook: Stable

Acuité believes APAC Group will maintain a 'Stable' outlook given its experienced management team and support of marquee investor. The outlook may be revised to 'Positive' if there is significant scale up of the operations, while maintaining profitability and healthy asset quality. Conversely, the outlook may be revised to 'Negative' in case of significant growth challenges or if the group faces asset quality or profitability related challenges.

About the Rated Entity - Key Financials (Consolidated)

Particulars	Unit	FY2020 (Prov.)#	FY2019 (Actuals)
Total Assets	Rs. Cr.	408.23	362.90
Total Income*	Rs. Cr.	53.14	18.72
PAT	Rs. Cr.	9.00	(14.54)
Net Worth	Rs. Cr.	394.96	355.45
Return on Average Assets (RoAA)	(%)	2.33	(7.55)
Return on Average Net Worth (RoNW)	(%)	2.40	(7.70)
Total Debt/Tangible Net Worth (Gearing)	Times	NIL	NIL
Gross NPA	(%)	2.20	Nil
Net NPA	(%)	1.95	NIL

*Total income equals to Net interest income plus other income

#Provisional based on I-GAAP figures

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Material Covenants

None

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A-/Stable (Assigned)

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About Acuité Ratings & Research:

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