

Press Release

APAC Housing Finance Private Limited

February 04, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	70.00	ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	70.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A-**' (read as ACUITE A minus) on the Rs.70 Cr. bank facilities of APAC Housing Finance Private Limited (AHFPL). The outlook is '**Stable**'.

The rating takes into account experienced management team supported by presence of seasoned investors/funds. The rating continues to factor in comfortable gearing levels of the Group at 0.16 times as on December 31, 2021 (Provisional) as against 0.13 times as on March 31, 2021 and capital adequacy levels of AHFPL (CAR at 143.34% as of September 30, 2021). The rating further factors in the Group's comfortable liquidity profile and management focus on building granular and secured retail/ MSME portfolio through a planned expansion of branches within the chosen geographies.

The rating, however, continues to be constrained by limited track record in building and managing a retail portfolio, concentration risk as reflected in top 20 exposures comprising about 18% of its overall book as on December 31, 2021, considerable improvement from about 32% as on March 31, 2021. Given the nascent stage of the Group's operations, the portfolio is unseasoned. The rating is also constrained by moderate profitability though improving trend with consolidated Profit After Tax (PAT) of Rs.6.13 Cr. during 9MFY2022 (Provisional) (Rs.4.4 Cr. during FY2021). Acuite believes that the ability of the Group to deploy the funds across various asset classes while maintaining an optimal risk return trade-off will remain key monitorable.

About the company

Mumbai based AHFPL, 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 (AFSPL). 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 AFSPL and a director on the board of AHFPL.

About the Group

Mumbai based APAC Group comprises of two companies, AFSPL and its wholly owned subsidiary, APAC Housing Finance Private Limited (AHFPL). AFSPL 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).

AHFPL is engaged in extending affordable home financing loans. The Group has a branch network of 77 branches spread across 7 states and reported AUM of Rs.472.8 Cr. as on December 31,2021.

Analytical Approach

Acuité has adopted a consolidated approach of the business and financial risk profiles of APAC Financial Services Limited along (AFSPL) with its wholly owned subsidiary, APAC Housing Finance Private Limited (AHFPL) 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

Key Rating Drivers

Strength

Seasoned Management Team supported by reputed investors:

APAC Group commenced its operation in FY2018. As on March 31, 2021 Mr. Gunit Chadha, the founder promoter of the Group, held 43.84% of the stake in AFSPL. Multiples Private Equity Fund & Plenty Private Equity Fund collectively hold 47.23% in AFSPL and the balance equity is with the Group's leadership team and other investors. AFSPL currently has a five-member board of directors headed by Mr. Gunit Chadha. During his banking career, he occupied top positions such as CEO of Deutsche Bank (Asia Pacific region) and CEO of IDBI Bank. He has infused about Rs.159.6 Cr. as his equity contribution including infusion of Rs.45 Cr. during December 2021 towards partly paid-up share. 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 and 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 Ms. Varsha Purandare who is the independent 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.

Comfortable Capitalization Profile:

APAC Group's consolidated gearing levels are low at 0.13 times as on March 31,2021 (Nil times as on March 31,2020) since the operations are largely funded by equity. The network stood at Rs.400.6 Cr. as on March 31,2021 (Rs.393.8 Cr. as on March 31,2020), while the debt stood at Rs.50.1 Cr. as on March 31,2021 (Nil as on March 31,2020). The network and gearing stood at Rs.454.2 Cr. and 0.16 times respectively as on December 31,2021 (Provisional).

On standalone basis, AHFPL reported capital adequacy at 140.67% as on March 31,2021 (35.8% as on March 31,2020). This improvement is on account of conversion of significant portion of debt from AFSPL to equity leading to significant growth in network to about Rs.57.9 Cr. as on March 31,2021 (Rs.12.0 Cr. as on March 31,2020). Concomitantly, gearing reduced to 0.12 times as on March 31,2021 (4.58 times as on March 31,2020). The capital adequacy stood at 143.34% as on September 30,2021. Acuité draws comfort from regular capital and liquidity support to the company from AFSPL. The management plans to leverage up to 2.5 times over the near to medium term which provides comfort. Acuité believes that APAC Group will continue to benefit from its experienced management and continued support from its investors.

Shift towards granular portfolio:

AFSPL focuses on business loan segment which extends credit to MSMEs whereas AHFPL towards affordable housing segment. 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 greater than Rs.5 Cr. Following the challenges in overall economic conditions in FY2020, the Group shifted its focus towards building a relatively granular book. Consequently, the Group is focusing on micro and small enterprises with granular loan ticket sizes and brought down its average ticket size to about Rs.7 lakh per borrower in Q2FY2022 from about Rs.11 lakh per borrower Q4FY2021. The APAC Group's AUM stood at Rs.472.8 Cr. as on December 31,2021 (Rs.355.4 Cr. as on March 31,2021).

Weakness

Limited track record in building and managing a retail portfolio:

APAC Group, (including NBFC and HFC business) received its NBFC license in February 2018 and its HFC license in May 2018. Given the nascent stage of operations, the Group's portfolio is unseasoned and its ability to deploy the funds across various asset classes while maintaining an optimal risk return trade-off will continue to be a key monitorable. On consolidated basis, the asset quality is average as reflected in GNPA at 3.36% as on December 31,2021 (0.51% as on March 31,2021). The moderation in delinquencies is primarily attributed to initial impact of lockdowns and restrictions as a result of Covid-19 second wave. As on December 31, 2021, top 20 exposures comprised of about 18% of its overall book (32% of its overall book as on March 31,2021). 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.

Moderate Profitability, albeit improving trend:

APAC Group reported Profit After Tax (PAT) of Rs.4.4 Cr. during FY2021 (PAT of Rs.6.7 Cr. during FY2020). The earnings' profile continued to remain subdued with Net Interest Margin (NIM) at 13.2% as on March 31,2021 (13.5% as on March 31,2020), mainly on account of high operating costs as result of expansion of branch network and credit expenses. Opex to earning assets stood at 9.2% as on March 31,2021 (9.9% as on March 31,2020). 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. Further, the Group increased provisioning to Rs.8.1 Cr. (ECL Model) during FY2021 (Rs.4.8 Cr. during FY2020) resulting in modest profitability. Return on Average Assets (RoAA) stood at 1.0% as on March 31,2021 (1.7% as on March 31,2020). The Group posted PAT of Rs.6.1 Cr. on total income of Rs.56.4 Cr. during 9MFY2022 (Provisional). Acuité takes note of the Group's strategy to re-invest its underlying profitability into building its physical distribution, digital platform and data analytics which is expected to improve profitability in medium term. Furthermore, the Group has invested significantly in growth of distribution from 26 branches as of March 2020 to 77 branches as of December 2021.

Rating Sensitivity

- Scale up in business operations
- Maintaining granularity in the portfolio
- Asset quality
- Maintenance of adequate Liquidity

Material Covenants

The Group is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation from the Group, "The Group is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.

Liquidity Position: Adequate

AHFPL's liquidity position remains adequate as on March 31, 2021. The company reported cash and cash equivalents of Rs.3.4 Cr. Given the extended support by AFSPL as and when it is required, the company is expected to be able to manage its liquidity requirements.

At Group level, liquidity stood at Rs.65.5 Cr. as on Nov'21 with debt obligations for next six months ended May'22 at Rs.14.9 Cr.

Outlook: Stable

Acuité believes APAC Group will maintain a 'Stable' outlook given its experienced management team and investor support. 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 growth challenges or if the Group faces asset quality or profitability related challenges.

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	66.97	70.76
Total Income*	Rs. Cr.	6.44	4.39
PAT	Rs. Cr.	0.82	(4.96)
Networth	Rs. Cr.	57.99	12.04
Return on Average Assets (RoAA)	(%)	1.19	(11.20)
Return on Average Net Worth (RoNW)	(%)	2.35	(41.32)
Total Debt/Tangible Net Worth (Gearing)	Times	0.12	4.58
Gross NPA	(%)	0.35	-
Net NPA	(%)	0.26	-

*Total income equals to Net interest income plus other income

Key Financials - Consolidated

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	474.50	406.34
Total Income*	Rs. Cr.	57.42	49.82
PAT	Rs. Cr.	4.37	6.69
Networth	Rs. Cr.	400.62	393.81
Return on Average Assets (RoAA)	(%)	0.99	1.74
Return on Average Net Worth (RoNW)	(%)	1.10	1.79
Total Debt/Tangible Net Worth (Gearing)	Times	0.13	-
Gross NPA	(%)	0.51	2.20
Net NPA	(%)	0.26	1.22

*Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable):

None

Any other information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Jul 2021	Proposed Bank Facility	Long Term	70.00	ACUITE A- Stable (Reaffirmed)
28 Jun 2021	Proposed Bank Facility	Long Term	70.00	ACUITE A- Stable (Reaffirmed)
03 Jul 2020	Proposed Bank Facility	Long Term	70.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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