

Press Release

APAC Housing Finance Private Limited

July 13, 2022

Rating Upgraded



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Total Withdrawn Quantum (Rs.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

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A**' (read as **Acuite A**) from **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**'.

Reason for Upgrade

The rating upgrade factors in sustained increase in scale of operations with improvement in earning profile. APAC's AUM grew 64 % to Rs. 581.27 Crs. as on March 31, 2022 from Rs. 355.43 Crs. as on March 31, 2021. The group's earning profile also saw an improvement with consolidated PAT levels at Rs. 11.15 Crs. for FY 22 as compare to Rs. 4.36 Crs. for FY21. The disbursement volume for APAC group also saw an improvement while maintaining healthy asset quality with GNPA and NNPA levels of 1.38 % and 1.13 % as on March 31, 2022 respectively. The rating continue to factor in the experienced management team supported by presence of seasoned investors/funds. The rating continues to factor in comfortable gearing levels of APAC Group at 0.37 times as on March 31, 2022 as against 0.13 times as on March 31, 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 APAC 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 12% of its overall book as on March 31, 2022, considerable improvement from about 32% as on March 31, 2021. Given the nascent stage of the Group's operations, the portfolio has limited seasoning. 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 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 83 branches spread across 7 states and reported AUM of Rs.581.27 Cr. as on March 31, 2022.

Analytical Approach

Acuite Ratings & Research Limited

www.acuite.in

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, 2022 Mr. Gunit Chadha, the founder promoter of the Group, held 52.45% of the stake in AFSPL. Multiples Private Equity Fund & Plenty Private Equity Fund collectively hold 40.25% in AFSPL and the balance equity is with the Group's leadership team and other investors. AFSPL currently has a six-member board of directors. During his banking career, Mr. Gunit Chadha 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 share capital. 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 and Mr. Arijit Chanda who are the independent members of the credit committee. Ms. Varsha has over three decades experience in banking and has occupied senior positions including ex-Chief Credit & Risk Officer, SBI group in her career. Mr. Arijit has 29 years of financial services experience, including in start-ups, in risk, credit and collections across Citi Group, Fullerton etc.

Comfortable Capitalization Profile:

APAC Group's consolidated gearing levels are low at 0.37 times as on March 31, 2022 (0.13 times as on March 31, 2021) since the operations are largely funded by equity. The networth stood at Rs.459.51 Cr. as on March 31, 2022 (Rs.400.62 Cr. as on March 31, 2021), while the debt stood at Rs.168.77 Cr. as on March 31, 2022 (Rs. 50.13 Crs. as on March 31, 2021). On standalone basis, networth stood at Rs.460.69 Cr. as on March 31, 2022 (Rs.407.8 Cr. as on March 31, 2021) and gearing remained at comfortable levels at 0.37 times as on March 31, 2022 (0.12 as on March 31, 2021). 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, along with affordable housing loans and SME LAPs. 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.5.9 lakh per borrower in Q4FY2022 from about Rs.11 lakh per borrower Q4FY2021. The APAC Group's AUM stood at Rs.581.27 Cr. as on March 31, 2022 (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. The Group's portfolio has limited seasoning 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 reasonably good as reflected by GNPA at 1.38 % as on March 31, 2022 (0.51% as on March 31, 2021). The 90+ DPD on core secured portfolio was 0.80% as on March 31, 2022. The moderation in delinquencies is primarily attributed to initial impact of lockdowns and restrictions as a result of

Covid-19 second wave. As on March 31, 2022, top 20 exposures comprised of about 12 % 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) growth of 153 % to Rs. 11.15 Cr. during FY2022 (PAT of Rs.4.4 Cr. during FY2021). The earnings' profile continued to remain subdued with Net Interest Margin (NIM) at 13.07 % as on March 31,2022 (13.2 % as on March 31,2021), mainly on account of high operating costs as result of expansion of branch network and credit expenses. Opex to earning assets stood at 8.78 % as on March 31,2022 (9.2 % as on March 31,2021). 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.12.83 Cr. as per ECL norms (Rs.11.09 Cr. during FY2021) during FY2022 resulting in modest profitability. The ECL provision provides significant buffer compared to the provisioning required as per IRACP norms which stood at Rs.4.53 Cr. for FY2022. Return on Average Assets (RoAA) stood at 1.98% as on March 31,2022 (1.0% as on March 31,2021). The Group posted PAT of Rs.11.15 Cr. on net total income of Rs.77.77 Cr. during FY2022. 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 83 branches as of March 2022.

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

At Group level, liquidity stood at Rs. 63.54Cr. as on March'22 with debt obligations for next six months at Rs. 33.65 Cr. as per ALM statement dated March 31, 2022

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	FY22 (Actual)	FY21 (Actual)
Total Assets#	Rs. Cr.	648.35	478.79
Total Income*	Rs. Cr.	68.74	51.48
PAT	Rs. Cr.	5.15	3.87
Net Worth	Rs. Cr.	460.69	407.79
Return on Average Assets (RoAA)	(%)	0.91	0.87
Return on Average	(%)	1.19	0.96

Net Worth (RoNW)			
Total Debt/Tangible Net worth (Geraing)	Times	0.37	0.12
Gross NPA	(%)	1.15	0.53
Net NPA	(%)	0.97	0.25

Excluding deferred tax assets

*Total income equals to Net Interest Income plus other income.

Standalone figures for APAC Financial Services Private Limited

Key Financials - Consolidated

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets#	Rs. Cr.	648.71	474.50
Total Income*	Rs. Cr.	77.77	57.42
PAT	Rs. Cr.	11.15	4.36
Net Worth	Rs. Cr.	459.51	400.62
Return on Average Assets (RoAA)	(%)	1.98	0.99
Return on Average Net Worth (RoNW)	(%)	2.59	1.10
Total Debt/Tangible Net worth (Geraing)	Times	0.37	0.13
Gross NPA	(%)	1.38	0.51
Net NPA	(%)	1.13	0.26

Excluding deferred tax assets

*Total income equals to Net Interest Income plus other income.

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

Not Applicable

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
04 Feb 2022	Proposed Bank Facility	Long Term	70.00	ACUITE A- Stable (Reaffirmed)
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 Upgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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