

**Press Release**

**APAC Financial Services Private Limited**

**September 16, 2022**



**Rating Assigned and Reaffirmed**

| Product                            | Quantum (Rs. Cr) | Long Term Rating               | Short Term Rating |
|------------------------------------|------------------|--------------------------------|-------------------|
| Bank Loan Ratings                  | 50.00            | ACUITE A   Stable   Reaffirmed | -                 |
| Bank Loan Ratings                  | 75.00            | ACUITE A   Stable   Assigned   | -                 |
| Total Outstanding Quantum (Rs. Cr) | 125.00           | -                              | -                 |
| Total Withdrawn Quantum (Rs. Cr)   | 0.00             | -                              | -                 |

**Rating Rationale**

Acuite has reaffirmed the long term rating of 'ACUITE A' (read as ACUITE A) on Rs. 50.00 Cr. bank facilities of APAC Financial Services Private Limited (AFSPL). The outlook continues to be 'Stable'.

Acuite has assigned the long term rating of 'ACUITE A' (read as ACUITE A) on Rs. 75.00 Cr. bank facilities of APAC Financial Services Private Limited (AFSPL). The outlook is 'Stable'.

The rating 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 compared 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 at 1.38 % and 1.13 % as on March 31, 2022 respectively. The rating continues 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, AF SPL and its wholly owned subsidiary, APAC Housing Finance Private Limited (AHFPL). AF SPL 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). The Group has a branch network of 83 branches spread across 7 states and reported AUM of Rs.581.27 Crs. as on March 31,2022.

### **Analytical Approach**

Acuité has adopted a consolidated approach of the business and financial risk profiles of APAC Financial Services Limited along (AF SPL) along 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 AF SPL. Multiples Private Equity Fund & Plenty Private Equity Fund collectively hold 40.25% in AF SPL and the balance equity is with the Group's leadership team and other investors. AF SPL currently has a six-member board of directors. Mr. Gunit Chadha has occupied top positions such as CEO of Deutsche Bank (Asia Pacific region) and CEO of IDBI Bank. He has infused about Rs.159.6 Crs. as his equity contribution including infusion of Rs.45 Crs. in 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 Crs. as on March 31,2022 (Rs.400.62 Crs. as on March 31,2021), while the debt stood at Rs.168.77 Crs. as on March 31,2022 (Rs. 50.13 Crs. as on March 31,2021). On standalone basis, networth stood at Rs.460.69 Crs. as on March 31,2022(Rs.407.8 Crs. 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:**

AF SPL 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 MSME LAPs. The exposures during this period had ticket size greater than Rs.5 Crs. 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 Crs. as on March 31,2022 (Rs.355.4 Crs. as on March 31,2021).

## **Weakness**

### **Limited track record in building and managing a retail portfolio:**

APAC Group 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 Crs. during FY2022 (PAT of Rs.4.4 Crs. 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 Crs. as per ECL norms (Rs.11.09 Crs. 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 Crs. 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 Crs. on net total income of Rs.77.77 Crs. 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. 63.54Crs. as on March'22 with debt obligations for next six months at Rs. 33.65 Crs. 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<br>(Actual) | FY21<br>(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 Net Worth (RoNW) | (%)     | 1.19             | 0.96             |
| Total Debt/ Net worth (Gearing)    | 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

### Key Financials - Consolidated

| Particulars                        | Unit    | FY22<br>(Actual) | FY21<br>(Actual) |
|------------------------------------|---------|------------------|------------------|
| Total Assets#                      | Rs. Cr. | 648.71           | 474.50           |
| Total Income*                      | Rs. Cr. | 77.77            | 57.42            |
| PAT                                | Rs. Cr. | 11.15            | 4.37             |
| 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/ Net worth (Gearing)    | 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>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.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                                       |
|-------------|--------------------------------|-----------|-----------------|--|
| 13 Jul 2022 | Term Loan                      | Long Term | 25.00           | ACUITE A   Stable (Upgraded from ACUITE A-   Stable) |
|             | Proposed Bank Facility         | Long Term | 5.00            | ACUITE A   Stable (Upgraded from ACUITE A-   Stable) |
|             | Term Loan                      | Long Term | 20.00           | ACUITE A   Stable (Upgraded from ACUITE A-   Stable) |
| 28 Jan 2022 | Term Loan                      | Long Term | 20.00           | ACUITE A-   Stable (Reaffirmed)                      |
|             | Proposed Bank Facility         | Long Term | 30.00           | ACUITE A-   Stable (Reaffirmed)                      |
| 29 Jul 2021 | Proposed Bank Facility         | Long Term | 50.00           | ACUITE A-   Stable (Assigned)                        |

**Annexure - Details of instruments rated**

| <b>Lender's Name</b>                       | <b>ISIN</b>    | <b>Facilities</b>                | <b>Date Of Issuance</b> | <b>Coupon Rate</b> | <b>Maturity Date</b> | <b>Quantum (Rs. Cr.)</b> | <b>Rating</b>                  |
|--|----------------|----------------------------------|-------------------------|--------------------|----------------------|--------------------------|--------------------------------|
| Not Applicable                             | Not Applicable | Proposed Long Term Bank Facility | Not Applicable          | Not Applicable     | Not Applicable       | 5.00                     | ACUITE A   Stable   Reaffirmed |
| Not Applicable                             | Not Applicable | Proposed Long Term Bank Facility | Not Applicable          | Not Applicable     | Not Applicable       | 75.00                    | ACUITE A   Stable   Assigned   |
| Small Industries Development Bank of India | Not Applicable | Term Loan                        | 27-01-2022              | Not available      | 10-12-2022           | 20.00                    | ACUITE A   Stable   Reaffirmed |
| Federal Bank                               | Not Applicable | Term Loan                        | 10-05-2022              | Not available      | Not available        | 25.00                    | ACUITE A   Stable   Reaffirmed |

## Contacts

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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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